The Economist

Election battle for the Great Lakes
PAGE 25

Eliot Spitzer takes on the insurers
PAGES 13 AND 69-71

Strains in France's foreign policy
PAGES 12 AND 49

Why single mothers have more girls
PAGE 79

OCTOBER 23RD–29TH 2004 www.economist.com

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Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

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Previous print editions
Oct 16th 2004
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The world this week

Politics this week
Business this week

Leaders

Ariel Sharon
Israel's unlikely dove

French foreign policy
After Iraq

Belarus
The dark heart of Europe

The insurance industry
Reprehensible

Gambling
In a spin

Letters

On freedom, fertility, economists, grid computing, Colombia, Afghanistan, short words

Special Report

Israel and Palestine
Leaving Gaza, maybe, and to an uncertain fate

United States

The presidential election
The battle for the Great Lakes

The politics of fear
Flu, that was close

The Missouri governor's race
Sharp lady, Blunt adversary

The electoral week
On the trail

The Alaska Senate race
Independent minds

Only in Alaska
Moose on the juice

Politics in Colorado
Rocky Mountain tussle

Lexington
Divide and rule

The Americas

Colombia's paramilitaries and drug lords
Lording it over Colombia

Chile's new constitution
Untying the knot

Discontent in Paraguay
Caught in the triangle

Unrest in Haiti
Blame game

Asia

Indonesia
Hail to the chief

India
Role reversal

Pakistan
The general's dilemma

Cambodia
Sihanouk's second reign ends

Myanmar
A darker shade of bleak

Malaysia
Forging a nation

Business

German labour
The day the factories stopped

Toymakers
Trouble in toyland

Pleasure craft
Lovely boating weather

Gold
Disharmony

Google
On to the desktop

Semiconductors
The end of Moore's law?

Disney
Nice work, if you can lose it

Face value
How not to spend it

Special Report

The insurance scandal
Just how rotten?

Finance & Economics

Accounting standards
A question of measurement

Citigroup
Mopping up

America's new law on cheques
Cheques cancelled

The battle at Lazard
Impasse

Base-metal prices
The morning after

Technology and futures exchanges
Wired

Economics focus
History and the internet

Science & Technology

Human evolution
Girl power

Flood control
A good soaking

Vaccines
Cool technology

Memory chips
Going up

Following directions
D'oh!

Books & Arts

Investigative journalism
J'accuse

South Africa
From one nationalism to another

South Korean cinema
New wave

Dr Hirst's cabinet

Middle East & Africa

Democratic Republic of Congo
President Kabila goes east

Zimbabwe
One freed, millions not

Tunisia
The supposed price of stability

Lebanon's prime minister resigns
A billionaire bows out

Iraq
The trial of Saddam Hussein

Iran
The lethal lot of the poor

Europe

French foreign policy
Diplomacy à la française

The European Commission
An Italian opera buffa

Spain's opposition
Unpopular party

Polish politics
Another week, another scandal

Germany's past
Memory monopoly

Russian police
The mystery of submariner Pumane

Charlemagne
A rigged dialogue with society

Britain

Education
Exam pass

War in Iraq
Into the triangle

Foreign Office
Our former man in Uzbekistan

Leadership and angst
Follow my leader

Anglicans and gays
Closet-minded

Red tape
Bad language

Sainsbury's
The trouble with IT

North-east referendum
Yoohoo! We're still here!

The Tote
Odd odds

Bagehot
Suspicious minds

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Man Booker prize
Sitting in judgment

Obituary

Obituary
Jacques Derrida

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Finland

Money and interest rates

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Stockmarkets

Trade, exchange rates and budgets

Total tax revenue

Emerging-Market Indicators

Overview

The uncorrupt

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Politics this week

Oct 21st 2004
From The Economist print edition

Talking ends

Reuters

Talks between the **Iraqi** interim government and representatives of the insurgents in the rebel-held town of Fallujah appeared to break down, amid continuing reports that the government intends to subdue it before the general election due in January. Meanwhile, Sunni clerics meeting in Baghdad said they would call for a boycott of the election if the Americans invade Fallujah.

The Americans heading the coalition of forces backing the Iraqi government stirred debate in **Britain** by asking the British to re-deploy a battalion of troops from the south to a more dangerous area near Baghdad; the British seemed likely to agree.

See article

Meanwhile, **Margaret Hassan**, head of the Iraqi branch of the aid organisation CARE, who has Irish, British and Iraqi nationality, was kidnapped in Baghdad by a group that has yet to reveal its identity.

The International Committee of the Red Cross said that people in Darfur, a **Sudanese** region whose people have been persecuted by government-backed militias, faced an “unprecedented food shortage”, worse even than the famines of the 1980s and 1990s. The United Nations complained that a ceasefire between the government and Darfuri rebels was not holding.

See article

Lebanon's prime minister, Rafik Hariri, resigned, along with his cabinet. Lebanese politics have been in turmoil since Syria, which maintains an army in the country, pushed through a constitutional change that extends the president's mandate.

See article

Two years after being charged with treason, Morgan Tsvangirai, leader of the Movement for Democratic Change, **Zimbabwe's** main opposition party, was acquitted. But he still faces a possible death sentence if convicted of a separate charge of having organised a protest against President Robert Mugabe.

See article

Congo's president, Joseph Kabila, visited the east of his country for the first time in years to prove that the civil war was over and it was safe. He was escorted by his presidential guard, who first cleared the city he visited of other armed men.

See article

Bush by a whisker

George Bush and John Kerry hit the **campaign trail** in an effort to shore up votes in the election's final stages. Most opinion polls gave Mr Bush a small lead.

See article

California's Republican governor, Arnold Schwarzenegger, broke with conservatives in his party by endorsing an initiative that would provide funding for **stem-cell studies**. Mr Schwarzenegger said the state had “always been a pioneer” in the field of medical research.

Texas's congressional-district boundaries were thrown into confusion once more as the Supreme Court ordered a review of the current map. This was drawn by the state's Republicans last year and is said to be of great advantage to their electoral prospects.

A report by the **Anglican church** criticised American bishops who installed a gay man, Gene Robinson, as head of the New Hampshire diocese last year. The Windsor report called for an apology for the divisions that the consecration caused, but did not ask Mr Robinson to step down.

See article

End of term limits

A referendum and parliamentary elections in **Belarus** were widely condemned as fraudulent. Alexander Lukashenka, Belarus's authoritarian president, won approval to scrap term limits in the constitution, and the opposition won no seats in parliament.

See article

The row over Italy's nomination of Rocco Buttiglione as **Europe's justice commissioner** continued. Two parties in the European Parliament threatened to reject the entire commission if Mr Buttiglione is not moved to another post. But the incoming commission president, José Manuel Barroso, expressed confidence that his entire team would be approved.

See article

The Turkish-Cypriot government of **northern Cyprus** resigned. Fresh elections are expected within the next few weeks.

A total of five schoolgirls were expelled from **French** schools for defying the ban on the Muslim headscarf. These are the first expulsions since the ban took effect last month.

A report to **France's** finance ministry by Michel Camdessus, a former IMF boss, called for labour-market deregulation and tougher control of public finances. Nicolas Sarkozy, the soon-to-depart finance minister, welcomed the ideas, suggesting that he will present himself as a reformer when he takes over as head of the ruling UMP party.

Most wanted

Reuters

Veerappan, a bandit who had terrorised southern **India** for more than 30 years, was shot dead by police. He had been wanted in connection with more than 100 murders, and for kidnapping one of India's most famous film stars, whom he held for 108 days.

Myanmar's prime minister, Khin Nyunt, known as a moderate—though that was a relative term—was purged.

See article

The ruling Congress party and its allies won a surprise victory in Maharashtra, **India's** richest state. The result was a disaster for the opposition BJP, whose national president resigned.

See article

Susilo Bambang Yudhoyono was inaugurated as **Indonesia's** president, the sixth in its history, and the fifth in the past six years.

See article

Thinking of home

Haiti's interim prime minister, Gérard Latortue, accused South Africa of allowing Jean-Bertrand Aristide, the deposed Haitian president in exile there, to organise a campaign of gang violence in Haiti that has claimed at least 55 lives. South Africa rejected the charge “with contempt”.

See article

Soldiers patrolling the streets after demonstrations in **Paraguay** were ordered to carry catapults, as it emerged that many of the troops were unable to afford the bullets that they are obliged to buy for themselves.

See article

Officials from the European Union and the four South American countries of **Mercosur**, who have been trying for five years to create the world's biggest free-trade area, met in Lisbon but failed again to reach agreement. Their next attempt to strike a deal will start next year.

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Business this week

Oct 21st 2004
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How rotten?

Eliot Spitzer, the energetic attorney-general of New York state, sued Marsh & McLennan, the world's biggest insurance broker, for rigging bids for insurance bought by companies, and for accepting cash from insurance companies for steering clients their way. He also sent subpoenas to other big firms, including health and life insurers. “Many will be implicated by the time we are done,” Mr Spitzer said. Shares in insurance companies around the world shuddered.

See article

Gold Fields, one of South Africa's oldest mining companies, rejected an $8 billion all-share bid from Harmony, a rival South African mining firm, to create the world's leading gold producer. But Gold Fields wants to pursue a merger with Canada's IAMGOLD. Newmont, AngloGold and Barrick, the world's top three gold-miners, may yet enter the battle for Gold Fields.

See article

America's airlines felt the pinch. AMR, the parent company of American Airlines, lost $214m in the latest quarter. Delta Air Lines lost $646m; Northwest Airlines lost a modest $46m. They mostly blamed a combination of high fuel costs and low fares.

Computing power

Profits at **eBay**, the world's leading internet-auction firm, nearly doubled to $182m and revenues climbed by 52% to $806m in the third quarter, partly as the result of strong sales to students returning to school.

IBM reported a modest increase in profits of 1% in the latest quarter compared with a year ago. The world's largest computer company made $1.8 billion but said that earnings in the next quarter would exceed expectations suggesting that corporate IT spending could be beginning a long-awaited recovery.

Worldwide shipments of **personal computers** grew by 12% in the third quarter compared with the same period the year before as demand burgeoned in Europe, the Middle East and Africa. Dell's share of the global market grew to 18.2%, while Hewlett-Packard's fell to 16.2%. IBM remained in third place with 6%.

Motorola reported that profits had more than quadrupled in the latest quarter, to $479m, though analysts had hoped for an even greater increase following big management changes at the world's second-largest mobile-phone manufacturer.

European employees of **General Motors** began industrial action in protest against the car giant's plans to lay off 12,000 workers, around a fifth of its European workforce. A strike by German carmakers at a plant in Bochum lasted seven days. Germany, with its high labour costs, is expected to bear the brunt of the cutbacks. GM has not made a profit in Europe for four years.

See article

J. Sainsbury, Britain's third-largest supermarket chain, gave warning that it was heading for its first loss in the company's 135-year history. The company's chief executive, Justin King, laid fault with his predecessor and promised to make up lost ground on Tesco and Asda.

See article

Drink to that

Coca-Cola said that it had settled a long-running antitrust case with the European Union. After a five-year investigation, Coke agreed to change marketing practices that had discriminated against retailers which failed to carry the firm's full range of drinks and dictated how retailers displayed its wares.

Constellation Brands, a big American wine and beer distributor, bid $970m for **Robert Mondavi**, a leading American winemaker. The firm, which pioneered winemaking in California, had planned to revitalise the business by selling its luxury brands for some $500m to concentrate on lower-quality wines.

Banished from Citigroup

Citigroup sacked three top bankers after a scandal at the financial-service giant's Japanese arm. Six less prominent employees had already left the bank after Japanese regulators ordered the closure of Citigroup's private-banking operations in the country citing a “breakdown of internal controls” that included fraud and a failure to check for money-laundering.

See article

America said that it was appealing against a World Trade Organisation ruling that most of its subsidies to **cotton producers** are illegal. A trade panel gave the verdict last month after a complaint from Brazil that the aid, worth $3 billion a year, breaks global trade rules.

Dollar's dolours

Softish economic data, a huge current-account deficit and rising oil prices have taken their toll on the **dollar**. The greenback's trade-weighted value fell to its lowest since February. The dollar also hit an eight-month low against the euro. Against the Canadian dollar, it is at its weakest for 11 years.

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Ariel Sharon

Israel's unlikely dove

Oct 21st 2004
From The Economist print edition

The world is entitled to suspect his motives. But Ariel Sharon's plan to leave Gaza still deserves support

Getty Images

A MAN does not often change his deepest convictions. But it is not unusual for a man to change his calculation of risk. This is what seems lately to have happened to Ariel Sharon. Next week, Israel's prime minister intends to ask his parliament to approve a plan to evacuate all of the Jewish settlements Israel has established in the Gaza strip. The plan also calls for the evacuation of three small settlements in the northern West Bank. Though only about 7,000 settlers live in Gaza, this will mark the first time in more than 20 years that Israel has uprooted Jews from the land it occupied and colonised after the war of 1967. It will be an act of profound symbolism, which is why so many Israelis—and much of Mr Sharon's own Likud party—have sworn to prevent it (see article). But unless Israel is capable of giving up many or most of its settlements in the West Bank and Gaza, no Palestinian state is likely to arise in these areas, which means that there will be no lasting peace. For that reason, the world needs to swallow its natural scepticism about Mr Sharon's motives, and—in this internal fight at least—do what it can to help him prevail.

Helping Mr Sharon does not require believing that he himself has changed his long-held opinions. The former general is an ultra-nationalist who has dedicated most of his long military and political career to throttling the national aspirations of the Palestinians. As prime minister, he probably still believes that a full-fledged Palestinian state in the West Bank and Gaza, especially one with its own army and the normal prerogatives of statehood, would pose a mortal danger to Israel.

The irrelevance of psychiatry

Even as he proposes to withdraw from Gaza, Mr Sharon is strengthening Israel's massive settlement blocks in the West Bank, and continuing to build the controversial security barrier which the International Court of Justice has said Israel has no right to plant on occupied land. Although he signed last year's international “road map”, which envisages the creation alongside Israel of an independent, viable and democratic Palestine, he was careful to ensure that this map did not specify Palestine's final boundaries. Last April, he talked George Bush into agreeing that in any final peace settlement, Israel could be expected to hold on to the main settlements it has built close to the pre-1967 border with Jordan. Though he talks of “painful concessions”, he would probably like to prevent the emergence of an independent Palestine. Failing that, he wants it to be a weak and stunted thing. He will certainly not offer

the Palestinians the deal (about 95% of the West Bank, a share of Jerusalem and all of Gaza) that his Labour predecessor, Ehud Barak, ended up being willing to offer in 2000.

However, to expect Mr Sharon to become a Palestinian nationalist is no more reasonable—or relevant—than to expect Yasser Arafat to become a Zionist. Just as millions of Palestinians mistrust Mr Sharon, believing that his ultimate aim is to squash their dream of freedom, so millions of Israelis believe that Mr Arafat's ultimate aim is still to throw the Jews into the sea. In the end, the dark and inner thoughts of these geriatric war-horses are unknowable and scarcely matter (not least because neither is likely to be around for the end). What does matter is what they do or can be forced to do while they have power, and whether their actions look likely to make things better or not. Measured by that yardstick, Mr Sharon's plan to quit Gaza is a Good Thing, no matter what his true motives.

The relevance of departure

The first good thing about Israel leaving Gaza is that this will improve the lives of the 1.4m Palestinians there. Right now, the 7,000 Israeli settlers occupy 23% of this teeming patch of land. In order to protect them from the *intifada,* Israel keeps substantial military forces in Gaza. When these soldiers do battle against Palestinian gunmen, they tend to kill a lot of civilians along the way. Pulling out the settlers and soldiers should help to reduce the bloodshed. It is, of course, more likely than not that some Palestinian gunmen and suicide bombers, especially those of Hamas and Islamic Jihad, will try to strike Israel even after a pull-out. But Gaza is isolated, and already fenced, so their power to do so will be limited unless they can smuggle in rockets able to reach Israeli cities. And Egypt, which is offering to help stop this smuggling, has a strong self-interest in preventing the strip from becoming a haven for terrorism.

The Palestinians say that Mr Sharon wants to turn Gaza into a prison, cut off from the rest of the world. Yet it need not be that way. Once the Israelis have left the strip, the world should, and almost certainly will, lean on Israel to open Gaza's airport and seaport, and allow the passage—to Israel itself, and to Jordan and Egypt—of Gazan goods and workers. It is true that Israel's willingness to co-operate will depend on the ability of the Palestinians to establish law and order in its army's wake. But why should that prove beyond their means, or against their interest? Palestinian leaders have every reason to show the world that Mr Sharon is wrong when he keeps on saying that Israel has no responsible partner on the other side. At best, Gaza freed from military occupation could be a laboratory, showcase and worked example of the land-for-peace model that can be copied on the West Bank.

Ah, say the Palestinians, but remember that Mr Sharon's plan is just a ruse. It will not just be Gaza first, they say; it will also be Gaza last. Well, maybe. But if that is his intention, he does not have the remotest chance of success. His motivation could be just what he says it is: to make Israel look a little better and make it easier for the army to control the *intifada*. Like the general he was, he is retreating under pressure to higher ground and shorter lines. But no country in the world is going to get off Israel's case just because it has given up Gaza. Right now, America is distracted by Iraq and elections. This gives Israel a diplomatic respite. Before long, however, the world will be knocking on its door again, more anxious than ever to resolve a conflict that feeds daily poison into relations between Islam and the West. If by then Mr Sharon has bested his own settler movement, so much the better for peace. If not even he can extract 7,000 settlers from Gaza, grim times lie ahead.

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French foreign policy

After Iraq

Oct 21st 2004
From The Economist print edition

How France could improve its foreign policy

Getty Images

Get article background

IT IS easy from afar to caricature France's foreign policy. The country's pretensions to exert significant global influence are overblown. Its forays into the Middle East, Asia and Africa often seem designed to promote not a worthy alternative view of the world but its own commercial interests, especially defence sales, spiced with a nostalgia for *la Francophonie*. And too much Gaullist bluster, most recently on Iraq, appears to be motivated by the desire to upset and undermine the United States, still France's most important ally.

Caricatures usually have some basis in truth—and these ones are no exception. Yet the real story of French foreign policy is more complicated than this implies (see article). France, like Britain, has legitimate historical and cultural reasons to assert itself in the world. Both have every right to press home their commercial advantages, as indeed has America. And it is understandable, even right, that a mid-sized European power should occasionally perceive its interests in the world as being different from America's. Indeed, one of the arguments for constructing a common foreign and security policy in the European Union is precisely that the European view of world affairs is likely, sometimes, to diverge from the American one.

Yet, even conceding that point, it remains unhelpful that France so often resorts to a knee-jerk anti-American stance in its foreign policy. Its dispute with America over how to deal with Iraq may have been genuine; and it is understandable that the French, having opposed the start of the war, do not see it as their job to help finish it. Yet France gains nothing from further fighting and greater instability in that country. Even if the French government sticks to its insistence on never, in any circumstances, sending troops there, it could be more supportive—for instance, by offering to relieve American and British forces elsewhere in the world. It would help France to climb down from its own strident position on Iraq if the Americans toned down their own strident anti-French rhetoric. But the effort should be two-sided: the French should drop their anti-American rhetoric too.

The other way in which France could improve its foreign policy is to subsume it more often within a wider Europe's. The French, like the British, have tended to see Europe's common foreign policy only as a vehicle which can put more oomph behind policies that reflect their national interests. To put it in Gaullist terms, Europe works solely when it is France writ large. But in an EU of 25, soon to be 27 or more, this is unlikely to be a fruitful approach. The French have, for example, damaged their effectiveness by dealing condescendingly with the new EU countries from central Europe. They have woken up late to the fact that

they and the Germans can no longer run the show. Instead France, again like Britain, should be doing more to build alliances around an expanded Europe.

More weight, less counterweight

This is not to suggest that a wider Europe, any more than France alone, should deliberately pursue a foreign policy at odds with America's. The EU may have a different emphasis when it comes to handling neighbours, such as the Balkans or Russia, or regions with which its members have special links, such as Africa, but its strategic concerns will be similar. Indeed, a stronger Europe, better able to deal with conflicts and problems in such countries, ought to be in America's interests. But to be a counterweight would be counterproductive.

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Belarus

The dark heart of Europe

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Russia is the country that can do most about the dismal situation in Belarus

STANISLAV SHUSHKEVICH, the first post-Soviet leader of Belarus, tells a wry anecdote that encapsulates how his country of 10m people, which now sits right next to the European Union, has been neglected by the West. "I've always liked your country," an American congressman once told him, "especially since you got rid of that Ceausescu fellow."

Many westerners have complacently assumed that all the easily confused ex-communist countries of Europe are sure to move towards democracy. Not Belarus. Since 1994, the country has been led brutishly back towards totalitarianism and a command economy by its president, Alexander Lukashenka. In a rigged referendum on October 17th, Mr Lukashenka "won" the right to change the constitution and run for a third presidential term in 2006 (and for a fourth and fifth, if the president, who is only 50, still bothers with elections by 2016). He was officially supported by 77% of the electorate, a figure that independent pollsters judge implausible in the extreme. Belarus now looks doomed to petrify in its sad, regressive state, unless Russia can be persuaded to do something about it.

Before last week's referendum, there were widespread fears about how the votes would be counted. In the event, some reports found that Mr Lukashenka's team had filled in ballots before handing them out. State propaganda and restrictions on independent media and on opposition politicians were themselves enough to make the result illegitimate. International observers condemned the parliamentary elections held on the same day, in which no opposition candidate won a seat; absurd technicalities had been used to stop many of them standing. Mr Lukashenka has always governed like a latter-day tsar, with little regard for constitutional or legal niceties. The fear among Belarussian human-rights activists, who are subject to official harassment and even to prosecutions on ludicrous pretexts, is that he will now slide from nasty authoritarianism towards outright dictatorship.

Optimistic outsiders, who had hoped for a democratic revolution of the kind that occurred in Georgia last year, will probably wait in vain. Belarus is not Georgia; nor is it Ukraine, where a flawed but more genuine election will be held next week. Many still support Mr Lukashenka, who pays pensions and state salaries (which is to say, most) on time. But even those who would prefer to see the back of him are unlikely to take to the streets. Given their grim history of foreign domination, Belarussians tend to be both patient and apolitical.

What can the rest of the world do to galvanise them? To be fair, the European Union and the Americans have not been entirely inactive. International scrutiny may explain why dissidents, although still often beaten and arrested, are no longer "disappearing" in the way that three of them, plus a journalist, did in 1999-2000. Both the EU and America have imposed visa bans on officials implicated in the disappearances and the subsequent cover-up. They should now impose similar bans on those involved in gerrymandering elections and suppressing freedoms of speech and association. America's Congress has passed a Belarus Democracy Act, which pledges financial support for democratic activists. Such support has in the past helped to pay the punitive fines that are levied to keep Mr Lukashenka's critics quiet. But it is hard to see what else the West, on its own, can do. Economic sanctions, for instance, would only make poor Belarussians even poorer.

The Russian option

The best plan for America and the Europeans is to persuade Russia that Mr Lukashenka is not the sort of

neighbour it should want. He once aspired to re-unite his country with Russia and to lead both; Russia's Vladimir Putin, not surprisingly, demurred. The Belarussian economy, dominated by large, state-owned industries and farms, may now be too Soviet for the further economic integration once envisaged. But however irritating Mr Putin may find him, Russia still props up Mr Lukashenka and his country with cheap energy.

Russian politicians have queued up to endorse Mr Lukashenka's referendum. Yet Mr Putin would do better to cultivate a more democratic Belarus. Mr Lukashenka's antics—his corrupt regime provides cover for illicit arms trafficking too—besmirch Russia's reputation. And even those Russians who cling to a cold-war, sphere-of-influence approach to their neighbours would lose little from encouraging a less repressive regime there. If Mr Putin and the West wait much longer, Mr Lukashenka, rather like Fidel Castro in Cuba, may become all-but impossible to budge.

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The insurance industry

Reprehensible

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Price-fixing, bid-rigging and undisclosed payments in the insurance industry appear to be rife

AP

THE scourge of America's financiers has struck again. Eliot Spitzer, New York's attorney-general, has built a reputation by uncovering the misdeeds of mutual-fund managers and investment bankers. Now it is the insurance industry's turn to cower. Last week, Mr Spitzer sued Marsh & McLennan, the world's biggest insurance broker, for colluding with insurance companies to inflate prices and for neglecting its primary responsibility—helping its clients, corporate buyers of insurance, to get the best coverage for the lowest premiums. AIG, the world's biggest insurer, and several other firms are also named as participants in the case (see article).

Mr Spitzer is like the little boy announcing that the emperor has no clothes. Repeatedly now, in one industry after another, he has exposed practices as dishonest or even illegal that have long been accepted and often tolerated by regulators. Even drug firms have attracted his attention. Last April Mr Spitzer set out to investigate whether brokers are swayed by extra payments ("contingent commissions") from insurers for sending more business their way. What he found, yet again, was conflict of interest of the gravest sort. Marsh, he says, solicited false quotes from insurers in order to pretend that the bid process had been competitive, while simply channelling business to insurers that promised it the biggest commissions. Two executives from AIG have already pleaded guilty to abetting bid-rigging. Mr Spitzer has obtained e-mails in which Marsh executives talk of steering business to insurers "who pay us the most" and of punishing those who questioned its system.

The extent of such practices is still unclear, though contingent commissions are thought to be common. Share prices of insurers and brokers round the world have plunged as the investigation expands from property-casualty insurance into the life and health fields. As a first step, those involved in the worst abuses clearly must be prosecuted. Mr Spitzer has all but called for the chief executive of Marsh to step down. He has made it clear that other firms are also in his sights.

European regulators should now launch their own investigations to find out whether such practices are also occurring on their side of the Atlantic. Meanwhile America's 50 state-level insurance regulators have much to answer for. They have known about the potential for conflict of interest for years but failed to probe the industry's behaviour seriously. Indeed, AIG said that it had requested a view on contingent commissions from New York state's insurance commissioner two years ago but never received a response.

Such complacency among state regulators betokens either capture by the industry or incompetence. The inability of state regulators to oversee properly an insurance industry now dominated by big firms adds to the already-strong case for Congress to create a federal regulator to monitor the industry nationwide. State regulators are simply too small to regulate credibly the industry's biggest companies, and they currently spend most of their time on smaller-scale matters such as claims-processing and premium rates. Concentrating resources at the national level would not only eliminate masses of paperwork for insurers (and consumers) who want to do deals across state borders; it would also free up more resources to monitor conflicts of interest among the industry's biggest firms. Nonetheless, federal regulation is no panacea. Mr Spitzer's pursuit of the mutual-fund industry last year for similarly damaging practices made the Securities and Exchange Commission, a federal agency, look just as complacent.

Coming clean

The first step for any regulator of the industry should be to demand more disclosure. At the moment brokers in America typically reveal the payments they are receiving only if a client explicitly asks, though even then they do not have to say anything (in Britain, they must on request). Clearly, insurance buyers should start asking tougher questions—big firms have been astonishingly lax about demanding the best deal. But the onus is on brokers and insurers to be more forthcoming. Marsh has stopped accepting contingent payments since Mr Spitzer's bombshell, and a shake-up across the industry looks likely.

This is good news. But it may not be enough. After a wave of consolidation over the past decade, three big broking firms—Marsh, Aon and Willis—together account for 61% of brokerage revenue worldwide. Such a concentrated industry will always be prone to oligopolistic behaviour. An outright banning of contingent commissions should therefore also be considered (something that may only be feasible with a single, nationwide regulator). If brokers want to act as sales agents for insurers, then that is what they should become. If they are to act as the advisers and representatives of clients, then they should not be taking payments from anyone else.

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Gambling

In a spin

Oct 21st 2004
From The Economist print edition

The British government's sensible plan to liberalise gambling is being vilified from all sides

Alamy

LOCKING up foreign terror suspects indefinitely without trial causes barely a stir. Breaking a promise to replace the House of Lords with a democratically-elected second chamber leads to a few mutterings from civil libertarians. But let the British government suggest that people should be able to gamble a little more freely and the wrath of the nation's press descends on it in equal measure from both right and left.

Britain's gambling laws date from the 1960s. Things have changed a little since then, which is one reason why the government thought the existing laws could do with a little updating. Another is that they are silly. Casinos, for instance, are for members only; and punters must join up 24 hours before they are allowed to place a bet.

The new gambling bill, published on October 19th, would get rid of that rule. It would also allow casinos to set up anywhere, rather than in a few restricted areas, would permit much bigger ones than are allowed under the current legislation and would leave it up to councils to decide where casinos could be built.

Big, bad, American business

The opposition to these plans seems motivated by, on the one hand, right-wing paternalism (the peasants must be protected against their mental and moral weakness) and, on the other, left-wing Methodism (if it's fun it's bad). This unusual alliance has loosed some powerful prose against the government. “Bewitched by money, tarnished by corruption, this Government is sacrificing the most weak and vulnerable to the high priests of gambling,” thundered the *Daily Mail*. Even the right-wing *Sun*, Britain's biggest-selling tabloid, has taken against the idea. That's a little troubling for the government, since the *Sun*'s abandonment of the Tories in favour of Labour in 1997 was reckoned to be Tony Blair's biggest media coup.

Liberalisation's opponents base their case on four arguments. First, they say, there is no demand for it. Surveys show that Britons think there is quite enough gambling available already. Well, if people are as unenthusiastic about the reality of more gambling as they are at the prospect of it, that's fine: casinos will be set up, people will stay at home playing Scrabble, and the casinos will close down.

But that argument does not sit comfortably with the second one, which depends on the idea of looming

social Armageddon. Liberalising the industry, according to this line, will lead to much more gambling, and thus radically increase the number of gambling addicts. That seems unlikely. If people want to gamble, they already can. Joining a casino doesn't take much effort, and those who are both desperate to gamble and too lazy to sign up (which sounds like a smallish group) can always waste their money on the internet. Anyway, in most areas of life, society accepts that the pleasure of the many is worth the problems of the few. Most people (in non-Muslim countries, at least) believe that drinking alcohol should be allowed even if a small minority is alcoholic.

The third argument is that the bill will allow big business—and American big business, horrors—to take over the gambling industry. That may well be right. As a sop to the killjoys, the government is banning slot-machines from lots of little businesses—such as mini-cab offices—that currently have them, and only the largest casinos will be allowed to offer the biggest jackpots. That's wrong. The government should not bias the system in favour of big companies. But they are likely to dominate the industry anyway, since they are more efficient and offer better services to customers. If big business takes over, gamblers are likely to enjoy themselves more.

The fourth argument is that the spread of huge casinos will dramatically change the nature of some of the seaside towns where they are expected to set up. Blackpool could become like Las Vegas. Some people may indeed regard that as a threat. Others, especially those who have spent much time in Blackpool, may think it an excellent idea.

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Letters

Oct 21st 2004
From The Economist print edition

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Spreading freedom

SIR – When George Bush's "war on terror" moved beyond counter-attacking al-Qaeda and threw "its weight behind the liberating force of democracy", you say its rationale was that the previous policy of "cuddling up to the [Middle East's] dictators and kleptocrats had turned the region into a breeding ground for Islamic extremism" (US election briefing, October 9th). America should begin to acknowledge its culpability in supporting oppressive regimes in the Middle East and forge instead a consistent policy of preferential treatment for governments progressing toward democracy. It then might find common ground in which to plant democratic initiatives, rather than expecting liberal values to sprout from shell holes and graveyards.

Despite Mr Bush's declarations that al-Qaeda "hates America" and "hates freedom", no one has shown that the planners of 9/11 cared much about how Americans employ their freedoms on American soil. It is how Americans use their freedom abroad to subvert the freedom of others when it appears to suit their interests that remains the blind spot of this administration and the single biggest obstacle to progress in limiting international terror.

Brian MacLean
Toronto

Go forth and multiply

SIR – You say that a strategy to combat an ageing European population is to raise birth rates ("Old Europe", October 2nd). This is an area where the contribution of the biotech industry in Europe has been unique and remarkable in the past 20 years. But this big effort to promote public health in the field of reproductive medicine has not been followed with a consistent public policy by the EU or its member states. As a result, the poor level of awareness, funding and reimbursement of fertility treatments by European governments dramatically limits access to therapy. In Germany, a cut by 50% of the reimbursement for fertility treatments approved by the government last year led to a shortfall of 10,000 births. In Italy, a law passed in 2004 made it harder for couples to get fertility treatment. The result was a shortfall of more than 3,000 children. These examples represent a consistent and dramatic trend.

Short-sighted budget-rationing measures should be reversed and the profound social, demographic and economic advantages to be gained in the long run from active and humane health-care policy must be recognised. It is poor policy and irresponsible government to sacrifice the long-term stability of our society in favour of politically expedient stop-gaps.

Ernesto Bertarelli
Chief executive officer
Serono International
Geneva

Representative claim

SIR – What you call a poll of "economists" who "rate Mr Bush's first-term economic policies as bad or very bad" by a substantial majority are, by your own account, "academics" ("The dismal science bites back", October 9th). They are professors of economics, not practitioners, and academics tilt heavily to

the left. Had your poll comprised a representative sample of economists—including economists in the real world, where most reside—the results would have been quite different.

Raymond Price
New York

Grid expectations

SIR – Your article on grid computing asks why companies would want to share computing resources in the same way as particle physicists ("One grid to rule them all", October 9th). They will do so to make a profit. A firm's spare computing resources will be leased on an hourly or even minute-by-minute basis to other companies willing to pay for it to solve large and computationally intense problems. Participants will gain a new revenue stream as well as on-demand access to much more computing horsepower than would be economical for any one company to own outright.

Jay Moore
Annapolis, Maryland

War on drugs

SIR – One of the main goals of Colombia's Democratic Security Strategy is the protection of all civilians, and the government has made the security of indigenous communities, including the Kankuamo, a priority ("The elusive god of peace", September 18th). Jorge Uribe, the defence minister, has organised and personally led meetings throughout the country to increase communication between the indigenous population and security forces and find ways to improve the security situation.

However, you fail to point out that the consumption of cocaine and heroin in Europe and America funds the attacks on the Kankuamo and all other indigenous populations trapped between the murderous interests of narco-terrorist organisations. We cannot fight the global war on drugs alone.

Andres Peñate
Vice-minister of defence
Bogotá

Rebuilding Afghanistan

SIR – You are right that the job of building a state takes time and patience ("Democracy's chance in Afghanistan", October 9th). There is much unfinished business in Afghanistan. A large part of the financial pledges made since the new regime was put in place in December 2001 has not translated into reconstruction projects. It is no wonder that Afghans in the countryside say that their lives have not improved despite increased international attention and the rash of aid agencies noticeable in the big cities. To use an Afghan adage: he may have soaked a hundred heads but he has yet to shave one.

Siddarth Deva
Oxford

The long and short of it

SIR – Churchill's pithy and pertinent observations on short words may apply perfectly adequately in customary verbal and written exchanges ("Out with the long", October 9th). However, in the universe of international organisations and agencies in Geneva, they could subvert and provoke highly significant and irreparable damage to the currently observed modalities of communication. The committed and diligent personnel with whom I have the privilege of working on a daily basis observe almost religiously the following commandments. Firstly, it is forbidden to employ monosyllabic words when a polysyllabic alternative is available. Secondly, it is forbidden to employ a single word when a tripartite or even quadripartite combination of words, preferably involving several layers of redundancy, can easily be identified. Thirdly, it is considered entirely unacceptable to employ words and phrases of previous and ancient usage when a neologism or an acronym of recent vintage and uncertain meaning is capable of serving a similar function.

Charles Krakoff
Geneva

SIR – It is hard to imagine a better testament to the value of long words than your article. Reading it is akin to anyone born before 1970 trying to dance to rave music: you know there is a rhythm there somewhere, but it always remains well out of reach.

Simon Miller-Jones
Hong Kong

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Israel and Palestine

Leaving Gaza, maybe, and to an uncertain fate

Oct 21st 2004 | CAIRO, RAMALLAH AND TEL AVIV
From The Economist print edition

AFP

Ariel Sharon's plan to evacuate the Jewish settlements from Gaza is causing outrage in Israel and slipping beyond its author's control

AS A soldier, Ariel Sharon earned a reputation for the bold and often reckless stroke. In Israel's Sinai war of 1956, he stretched his orders and led his paratroops into a bloody—some comrades said avoidable—Egyptian ambush in the Mitla Pass. In the 1973 war, he nagged his superiors to authorise an early counter-attack across the Suez Canal, long before Israel had marshalled enough tanks to be sure of success. As defence minister in 1982, he masterminded Israel's invasion of Lebanon, in the vainglorious hope that evicting the Palestine Liberation Organisation from that benighted country would crush the dream of Palestinian statehood once and for all.

Now that he is 76, even his admirers admit that “Arik” is not the man he used to be. But the prime minister has not lost his taste for the bold stroke. On October 25th, he will ask Israel's parliament, the Knesset, to approve the evacuation of all 7,000 or so Jewish settlers from the Gaza strip, the teeming Palestinian area south of Tel Aviv that Israel has held ever since capturing it from Egypt in the 1967 war.

If Mr Sharon has his way, extraordinary scenes may unfold next summer. A huge Israeli force will move into the Gaza strip. Part of it will do battle with the 1,500 settler families, some of whom seem intent on resisting. Another part will protect settlers from the Islamist gunmen of Hamas, who will probably try to attack them as they are evicted, to show that it was their struggle that forced Israel out. Israel will then demolish the luxurious red-roofed villas of which most of the settlements consist, in order to deprive Hamas of the propaganda coup of moving in the families of suicide-bombers.

This plan horrifies Israel's mighty settler movement and much of the prime minister's own Likud party. It also inspires little enthusiasm inside the cabinet or in the army high command. It is Arik's baby, and even he may not be able to deliver it: next week's Knesset vote is only one of many hurdles he has still to surmount. Even if he somehow clears them all, what will follow on the ground in Gaza and the West Bank, and in the moribund “peace process”, is even less clear. Some Israelis predict a reduction in violence and new chances for peace. Others say Gaza will turn into “Hamas-land”, dominated by the most radical Palestinian organisations, who will fight on and smuggle in missiles to fire deep inside Israel.

Why should Mr Sharon, the hammer of the Palestinians and the man who not long ago called the Gaza settlement of Netzarim as dear to him as Tel Aviv, now want to lead Israel out of the strip? The answer

from the Palestinians is that this is a ruse, a bit of sand to throw in the eyes of the world while Israel tightens its hold on the larger West Bank, which has been colonised not by a mere 7,000 settlers but by some 200,000 (not counting a similar number of Israelis who live in new suburbs in the formerly Jordanian areas of Jerusalem). All the Israelis are offering in Gaza, the Palestinian prime minister, Ahmed Qurei (Abu Alaa), told *The Economist* in Ramallah last week, is “a prison surrounded by a buffer zone, with the keys in their hand and no West Bank”.

The answer from Mr Sharon is different. Leaving Gaza, his spokesmen insist, is consistent with the international “road map” of April 2003, under which, prodded by George Bush, Israel signed on to the idea of an independent and viable Palestinian state. The road map does not specify Palestine's final borders. It is a plan in three phases. First, a ceasefire, the building of Palestine's democratic institutions, a freeze on Jewish settlement and an Israeli withdrawal from the areas reoccupied since the eruption in 2000 of the Palestinian *intifada*. Next—once the Palestinian leadership has “acted decisively against terror”—elections, an international conference and the creation of a state with “provisional” borders. Last, another international conference leading to a comprehensive agreement on refugees, Jerusalem and final borders.

When it was published in 2003, the road map envisaged reaching phase three in 2004-05. But the two sides are stuck at the starting line. Despite lulls, which each blames the other for ending, there has been no ceasefire. Moreover, Israel persuaded Mr Bush in 2002 to stop dealing with Yasser Arafat, on the ground that the Palestinian president was encouraging suicide attacks. John Kerry, the Democratic candidate in America's election, has taken this line too. Without a ceasefire, and while Mr Arafat still calls the shots on the Palestinian side, Mr Sharon says he cannot implement the road map. And until a way is found, he told the Knesset last week, Israel must take “steps of its own” in Gaza to improve its international standing and its ability to fight terrorism.

The Sharon version of how things stand is met with a scepticism verging on derision in the Palestinian camp. Indignant Palestinians cite a recent interview with the *Haaretz* newspaper in which Dov (“Dubi”) Weisglass, Mr Sharon's lawyer and adviser, says plainly that the beauty of disengaging from Gaza is that Israel is thereby doing “the minimum possible”, while removing Palestinian statehood “indefinitely” from its agenda. But however much they mistrust him, the Palestinians cannot be seen to be asking Mr Sharon to prolong any part of the occupation. So Palestinian diplomacy now focuses on trying to connect Israel's Gaza plan to the larger questions of statehood and the West Bank. And since neither Israel nor America will deal directly with Mr Arafat, the Palestinians need a mediator.

Israelis versus Egyptians

Enter, backstage, Omar Suleiman, Egypt's head of intelligence, who is sometimes tipped as a future president of Egypt. President Hosni Mubarak has asked the former infantry officer (also, like Mr Sharon, a veteran of the 1956 war) to co-operate with both the Israelis and the Palestinians in order to help Israel leave Gaza, make its leaving consistent with the road map, and persuade the Israelis and Americans that

the Palestinians are indeed reliable partners.

To this end, Egypt is beginning to train Palestinian officers to take over security in Gaza when the Israelis leave. Once the Israelis have gone, Egypt may send a contingent of 200 or so of its own advisers to help. Mr Suleiman has also been trying for months to talk all the Palestinian factions, including the hard men of Hamas and Islamic Jihad, into declaring a ceasefire—and Mr Arafat into implementing some of the internal reforms, especially a streamlining of his various security services, required under the road map.

Though Israel keeps saying that its Gaza plan is unilateral, it needs Egypt's help. Evacuating Gaza will relieve Israel's army of the burden of defending the Jewish settlements there. Gaza is already surrounded by a fence, which Palestinian suicide bombers have only rarely managed to breach. What worries Israel's planners is the prospect of the Palestinians smuggling longer-range missiles into the strip, from where the intifadists have already fired hundreds of their rudimentary Kassam rockets into Israeli towns.

Because of this worry, Israel envisages keeping troops in the so-called Philadelphi corridor, a narrow 12km (eight-mile) buffer that runs inside the strip's border with Egypt. But they may yet leave if Egypt convinces them that it can stop the smuggling by stationing a suitable number of border guards on the frontier. The difficulty is for the two countries to decide what number is suitable; their peace treaty limits Egyptian troop numbers in Sinai. The Israelis and Egyptians are also still haggling over the terms on which Israel would allow the Gaza seaport and airport to open, and over a possible new railway service between Gaza and the West Bank.

Israelis versus Palestinians

Reuters

Life behind the wire in Gaza

Whatever Egypt and Israel work out in advance, will quiet really prevail in a post-withdrawal Gaza? Nobody is sure. The Israelis portray their plan in part as a test of the other side. As Mr Weisglass put it in his notorious interview, the Palestinians there will have no more Israeli soldiers to ruin their day. “For the first time they [will] have a slice of land with total continuity on which they can race from one end to the other in their Ferraris. And the whole world is watching them...The whole world is asking what they intend to do with this slice of land.” In Cairo, senior officials argue that once Israel is out of Gaza, Hamas and Islamic Jihad will be wary of acting as spoilers and so bringing new Israeli revenge on their supporters' heads.

Palestinian leaders also talk confidently about the calm that will prevail. Hakim Balawi, the interior minister of the Palestinian Authority (PA), says that once Mr Suleiman unveils his ceasefire proposals—and provided Israel agrees—the PA will be ready to take “extreme measures” against anyone who fails to abide by them. This ceasefire, he claims, will include the disarmament of Hamas and Islamic Jihad, as called for in the road map. But will it? In Gaza, where Hamas appears to hold sway, the orders Mr Balawi issues from Ramallah will not necessarily be obeyed.

Speaking off the record, other Palestinian security officials offer less promising versions of what a ceasefire might look like. One option the Palestinian factions are debating between themselves is whether to stop suicide-bombings within Israel proper and concentrate on military targets in the occupied territories. But the factions do not appear to have decided whether settlers are to be treated as civilians. And some say that even this limited ceasefire would depend on Israel freezing settlement activity and pulling down the controversial security barrier it continues to build in and around the West Bank.

A truce under which the radical factions would be allowed to keep their weapons is not going to impress Mr Sharon's government. Nor is there an appetite in Israel for suspending work on its security barrier. Although the International Court of Justice has declared it illegal, with no justification on grounds of self-defence, Israelis like the wall. In the areas where it has already been built, the number of successful suicide attacks has dwindled to almost zero.

On the Palestinian side, too, there is an appetite for keeping up the struggle. A breather might be welcome—Israel has killed successive generations of Hamas leaders—but few armed Palestinians seem willing to end the *intifada* for good, and merely in return for Gaza, which they now know Mr Sharon intends to leave whether they cease fire or not. Besides, for an organisation such as Hamas, competing

for glory against Mr Arafat's older and staider Fatah organisation, the prospect of appearing to evict Israel from Gaza by force—just as Hizbullah drove Israel from Lebanon—is probably going to be too enticing to resist.

Israelis versus Israelis

All in all, this suggests that the violence may very well continue even after Mr Sharon dismantles the settlements in Gaza. And this in turn makes it hard for him to sell his plan at home. Tearing down Jewish settlements will be a trauma. Israel has not evacuated a single settlement since it gave up Yamit, in Sinai, in 1982 as part of Menachem Begin's peace with Anwar Sadat. But whereas Begin could argue that he was winning a great prize in return—peace with Israel's strongest neighbour—Mr Sharon can make no such claim. All he can promise Israelis is a slim chance that his plan will win their country diplomatic credit, and the prospect of being able to continue the fight against the *intifada* from behind shorter lines.

Against this, the entire settler movement—not just those in Gaza—has mobilised against what they see as the thin end of a wedge that could one day prise them from all their sacred lands. Some settlers liken Yonatan Bassi, the religious Jew in charge of paying compensation to the Gaza settlers, to the *Judenrat*—the Jews who collaborated with the Nazis. He can move nowhere now without bodyguards. But even the majority of settlers who forswear violence are bitter and fearful. And they believe they have reason to be.

The settlers complain that they are being commanded to sacrifice homes and livelihoods for nothing tangible in return, least of all a negotiated peace. Worse, many Israelis—as well as Hamas members—see this as a military victory for the *intifada*, or “surrender to terrorism” in Israel's view. Rabbi Ovadia Yosef, the spiritual leader of Shas, one of Israel's religious parties, has long indicated that he would be in favour of giving up land for peace. But not, he is said to believe, for no peace.

Israel is a democracy. And polls suggest that a majority of Israelis share Mr Sharon's desire to turn his back on Gaza. But this does not help him as much as it should. His efforts to date to win over his party—first in a referendum of Likud members, then in a vote of his central committee—have failed. Bit by bit, extreme rightwingers have peeled away from his coalition. Last week, the Knesset rejected the traditional statement with which the prime minister opens its winter session. Though only a symbolic move, this was both a calculated humiliation and a clear sign of Mr Sharon's political weakness.

Traditionally, Israeli prime ministers who are losing control of their coalition try to form a new one. This time, however, it is not easy for Mr Sharon to save himself by reaching out to the doves of the Labour Party, which is now in opposition.

Quitting Gaza was originally a Labour idea, and the party is keen to see Mr Sharon implement it. But Labour strategists are wary of their party being seen as just a rubber stamp, and will find it hard to join a government whose finance minister, Binyamin (“Bibi”) Netanyahu, happens to be pursuing draconian free-market policies. Nor does Bibi, a former prime minister who would like his old job back, have an obvious reason to ease Mr Sharon out of his predicament. Other members of the cabinet, such as the foreign minister, Silvan Shalom, have their own reasons to oppose taking Labour into their coalition. Labour's leader, Shimon Peres, would like to be foreign minister himself.

For the present, Mr Sharon seems to be hoping that he can get his way by force of personality alone. But his determination to proceed without the support of his party or a decisive majority within the Knesset is causing mounting concern even to supporters of the disengagement plan. Doves and hawks alike wonder aloud whether he is in danger of stretching the rules of Israel's democracy too far.

Israel already crackles with talk of violent opposition, military disobedience and even civil war if Mr Sharon takes on the settler movement without a clear mandate from the people. He could call an early election—but, under Israel's party-list system, that might just give his enemies in Likud a chance to bring a higher proportion of hardliners into the Knesset. In recent days Mr Sharon seems to have warmed to the idea of a national referendum—even though this would ensure further delay without ensuring final victory.

Inside the police fort

As Mr Sharon twists and turns, Mr Arafat remains confined by Israel in the ruins of his compound, a

former British police fort in Ramallah. He cuts a forlorn figure nowadays: a tiny old man (one year younger than Mr Sharon) in a crumpled khaki uniform, who exercises by walking round his dining table. He receives a trickle of visitors, who are apt to hear more from him about past glories than present plans. Having visited the White House scores of times, Mr Arafat is now deemed an incorrigible terrorist again, who can no longer be spoken to by official Americans. The PA, set up with such high hopes in the early 1990s, is in a state of collapse, unsure how to pay the next month's wage bill.

It would be easy to conclude that history had passed Mr Arafat by. And yet, when your correspondent and a scribble of British journalists dined with Mr Arafat last week, the president had a twinkle in his eye. Though he is not talking to Israel, he is talking to Mr Suleiman, who is talking both to Israel and to America. The Egyptians say they want his freedom to be part of the Gaza disengagement. That remains unacceptable to Mr Sharon. But although he was the plan's architect, Israel's prime minister is now only one of many players trying to bend the plan to his own advantage. And with Israel's politics as they are, nobody can be sure that he has a longer lease on political life than Mr Arafat.

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The presidential election

The battle for the Great Lakes

Oct 21st 2004 | GRAND RAPIDS, MICHIGAN, GREEN BAY, WISCONSIN, AND TOLEDO, OHIO
From The Economist print edition

Corbis

As the presidential race turns increasingly nasty, it is slowly closing in on one particular region of the country

ONE of the better ads in this campaign is the National Rifle Association's poodle poster, which pops up in gun shops around the Great Lakes. A delicate little dog with a bow and a blue waistcoat bearing a Kerry logo is attempting to point like a hunting dog. “That dog don't hunt”, crows the tagline.

This week the national campaign entered its final phase, with both sides throwing off any previous restraint. John Kerry unleashed a torrent of attacks, implying, among other things, that the president was denying Americans flu vaccine (see article), planning to bring back the draft and plotting to get rid of pensions. George Bush denounced this scare-mongering, but both he and Dick Cheney, the vice-president, continued their own hard pounding on Mr Kerry's unsuitability to lead the nation.

Some national polls suggest that Mr Bush has halted Mr Kerry's debate-driven surge. The president has regained leads of more than five points in a couple of surveys. But most show the race neck and neck, and a few give Mr Kerry a slender lead—including our own YouGov survey, which puts him two points ahead, as it did last week. In most electoral-college calculations, Mr Bush is now well short of an overall majority. Lawyers from both sides are massing in a variety of swing states.

This war has many fronts—including Colorado and New Mexico in the west and, of course, Florida in the South. But the race hinges disproportionately on a cluster of northern states hugging, or touching, the five Great Lakes (see map). Not all the states are swing states: Indiana is solidly Republican, New York and Illinois are solidly Democratic, and, this year at least, Michigan looks pretty good for Mr Kerry. But the region also includes Ohio (which Mr Bush won in 2000) and Pennsylvania, Wisconsin and Minnesota (which Al Gore won). Together, these four states offer 61 electoral-college votes—or roughly half the total for states considered up for grabs.

And here Mr Kerry seems to have done particularly well at closing the gap. According to RealClearPolitics.com, which helpfully averages local polling results over each week, Mr Bush was clearly ahead in Ohio and Wisconsin before the debates and level-pegging, or better, in Pennsylvania and Minnesota. Now Mr Kerry is fractionally ahead in all four.

In past elections, Wisconsin and Minnesota, both left-leaning states, would have been considered a bonus for Mr Bush. But with the growing clout of suburban voters, both states have become more conservative—and Mr Bush may well need to win one of them to make up for Republican states elsewhere that are trending Democratic, such as New Hampshire.

This explains why barely a day passes by without one or other of the candidates or their running-mates flying in. There has also been a fearsome media barrage. An analysis by Nielsen and the University of Wisconsin Advertising Project shows that between September 24th and October 7th, the period around the nationally televised debates, six of the top ten television markets for presidential advertising were in the Great Lakes area: Green Bay, Cleveland, Toledo, Columbus, Grand Rapids and Harrisburg.

Is it fair to lump together the eight Great Lakes states? Even if you exclude New York, an outlier in many respects, big differences separate them. Pennsylvania, for instance, joined the union in 1787 and crams 274 people into each square mile; relative newcomer Minnesota joined the union in 1858 and is much emptier, with 62 people per square mile. About 12% of the population in Illinois are foreign-born, while only 3% are foreigners in Ohio, Indiana and Wisconsin.

Yet a number of common threads connect them. The region remains the country's industrial heartland. One-fifth of the country's manufacturing base is there, and even if the “Rust Belt” tag is hardly fair for the home of Motorola, Medtronic and Abbott Laboratories, much of the commercial base is old: cars, steel, shipping, agriculture. This heartland—whether heavy manufacturing in Detroit, Cleveland and Green Bay or farming in Minnesota and Wisconsin—has seen wrenching changes in recent decades. Factory jobs have moved offshore or to lower-wage states further south, unions have seen their membership decline, family farmers have sold out to big agribusinesses and moved to the suburbs.

Most of the Great Lakes region is relatively old and white. New York and Illinois, the two most Democratic states, are the only ones not to be at least three-quarters white. But across the region you can spot newer arrivals, from the Arab-Americans of Detroit to the Hmong refugees, from Laos, flowing into Minnesota and Wisconsin. Latino immigrants, mostly from Mexico, are increasingly found in towns across the region.

Mr Kerry has closed the gap with Mr Bush in recent weeks by hitting issues of particular interest to local voters. In the industrial heartland, he talks about job losses, the economy and trade. In states with ageing populations, such as Pennsylvania, he returns repeatedly to health care.

This week the national campaign entered its final phase, with both sides throwing off any previous restraint

These themes are designed to rally the Democratic base. (Michael Berkman, a political scientist at Pennsylvania State University, says Mr Kerry's speeches remind him of the final base-massaging blitzes of both Mr Gore and Michael Dukakis.) In peace-loving Wisconsin and Minnesota, where voters take a dimmer view of the Iraq war than the country as a whole, Mr Kerry claims that ousting Saddam was a distraction from the war on terror.

Revealingly, Mr Bush sometimes downplays Iraq in those states too; but the president is not without his own issues. The Great Lakes swing states may lean to the left on trade, but they are often socially conservative. The NRA endorsement will help him in Pennsylvania, which has about 1.3m gun owners and even lets children out of school for the first day of the hunting season. Although abortion-rights supporters are running an ad in Wisconsin imploring voters to “stop George Bush from playing doctor”, abortion and gay marriage also work to Mr Bush's advantage among blue-collar voters, once known as “Reagan Democrats”.

It was probably these people, as much as anybody else, whom Mr Bush had in mind when he attacked Mr Kerry in the third debate for being “on the far left bank” of American politics. The notion that a Massachusetts liberal with a rich feminist wife is not really “one of us” will be a crucial part of the Republican pitch in the states around the Great Lakes.

And the Great Lakes may not be doing quite as badly as Mr Kerry suggests. The most recent report on mid-west manufacturing from the Chicago branch of the Federal Reserve showed robust growth. The region boasts a plethora of business-friendly pragmatic governors from both parties: Jennifer Granholm of Michigan, Joe Kernan of Indiana, Jim Doyle of Wisconsin and Tim Pawlenty of Minnesota. Chicago, America's third-largest city, is booming; its mayor was in China this week, selling his “global city” and boasting about the 3,000 students learning Mandarin in Chicago's public schools.

This hardly squares with some of the Democrats' protectionist rabble-rousing. Mr Bush has seized on this theme, claiming that he is the candidate of optimism while Mr Kerry is the grumbling pessimist. But as long as many Great Lakes voters take a dim view of their own prospects, that may not be enough to see the president to victory.

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The politics of fear

Flu, that was close

Oct 21st 2004 | IOWA CITY
From The Economist print edition

A fuss about vaccinations

GEORGE BUSH is not having one, and doesn't think able-bodied congressmen should, either. But the president's noble gesture over his flu jab cuts no ice with his rival. “Here's the Bush health-care plan: don't get a flu shot,” John Kerry told quivering old folks in Tampa, Florida. “If you can't get flu vaccine to Americans, how can you protect them against bioterrorism?” he added later.

Flu kills an estimated 36,000-51,000 Americans a year, 90% of them over 65. Vaccination against it has steadily risen to a projected demand of 100m shots this year. But the virus is a moving target. Thanks to mergers and the limited appeal of an unpredictable market with low profit margins, the pool of western vaccine producers has shrunk. Some 200m of the world's flu shots come from six firms, only two of which are licensed to sell in the United States.

One, the French-owned Aventis Pasteur of Swiftwater, Pennsylvania, is under contract for 55m shots of injectable vaccine. The other, the Chiron Corporation of Emeryville, California, acquired Powderject Pharmaceuticals of Liverpool last year with the intention of producing 46m-48m shots. But in August the company acknowledged bacterial contamination; and on October 5th, after British regulators suspended its licence, its vaccine was pronounced unavailable.

As the elderly formed nine-hour queues to get their shots in California, the relatively sound Mr Bush (seven years younger than the recommended eligibility threshold of 65) and his men looked on the bright side. Help, in the form of another 2.5m-4m shots, was on the way, said Tommy Thompson, the secretary of health and human services, with 60m doses of antiviral medicine in reserve. And in any case, there are a few weeks to go before the aches and sneezes begin in earnest.

Certainly neither Mr Bush, nor Mr Kerry as a senator, acted early enough on flu when the warnings came last year. But the fact is that there is not much that politicians can do. Government can try to spur production by offering higher prices, an assured market, or tax write-offs, but prices will probably still be too low to curry much interest.

The developing world, especially India, has plenty of good vaccine-makers that could supply the American market and would probably be more tempted by government offers. But regulatory hurdles stop drugs coming in from abroad. Mr Kerry, at least in the case of Canadian drugs, is in favour of loosening those restrictions; but he would not like vaccine-making jobs to go abroad. Like so many issues in this election, neither candidate has a cure to hand.

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The Missouri governor's race

Sharp lady, Blunt adversary

Oct 21st 2004 | ST LOUIS
From The Economist print edition

And who will cut the victory?

ONE of the hardest results to forecast, even in this year's nail-biting election, is who will be Missouri's governor after the voting on November 2nd. It is a battle between the Democrats' Claire McCaskill, at present Missouri's state auditor, and the Republicans' Matt Blunt, currently its secretary of state. Nobody is willing to bet much on who will be the winner.

Both Ms McCaskill and Mr Blunt come from political families. Ms McCaskill, despite her claim to be a farm girl who worked her way through college and law school as a waitress, spent most of her childhood in the college town of Columbia, where her mother was on the city council and her father was a state insurance commissioner. She moved to Kansas City in western Missouri, and eventually became a prosecution lawyer in Jackson County.

She is a notably scrappy lady. In 2000, having won statewide office, she began a series of aggressive audits, among other things exposing the sham operations of the child-abuse hotline. This year she took on the incumbent governor, Bob Holden, in August's Democratic primary, and won a stingingly decisive victory. She started to chop away the dead wood in the state party within 24 hours.

Mr Blunt likes to portray himself as an aw-shucks small-town boy, but he too grew up in the world of politics. His father, Roy Blunt, is the Republican whip in the House of Representatives in Washington, DC. He himself graduated from Annapolis and served for a time in the navy before winning a state representative's seat on his way to the secretary of state's office. He was recalled for six months' duty with the navy after the terrorist attacks in September 2001. He is not, however, as punchy as the lady he is fighting. His voice is thin and reedy, and he seemed reluctant to debate with his rival—before eventually agreeing to two such contests.

The first took place on October 18th—at a time when most of the state was watching either the St Louis Cardinals in the baseball play-offs or the St Louis Rams' Monday night football game. More a verbal brawl than a debate, both candidates came out swinging. Ms McCaskill emphasised Mr Blunt's youth and inexperience. He accused her of using millions of dollars from her second husband's nursing-home fortune in her campaign.

Indeed, neither candidate has run a kindly campaign. Both have taken a kernel of truth about the other's minor tax problems and tried to expand it into a new Watergate. Mr Blunt, whose office supervises elections, has also been criticised for spending $48,000 of federal money on newspaper advertisements, encouraging Missourians to vote in the August primary, which contained his picture. His campaign has asked friendly county officials to send it lists of voters requesting absentee ballots. Some of those on the lists have been contacted by the state's Republican Party.

Victory for either candidate will probably be by a razor-thin margin. The Republicans seem likely to keep control of the state legislature, and to get Senator Kit Bond sent back to Washington, DC. George Bush is certainly ahead in the polls in the state, but hardly secure. And the governor's race could keep the politicians and the journalists up all night.

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The electoral week

On the trail

Oct 21st 2004
From The Economist print edition

Bumper-sticker of the week

“I Actually Voted For John Kerry Before I Voted Against Him.”

Washington Times, October 15th

Endorsement of the week

“Help, I'm stoned, who should I vote for?”

A question to HighTimes.com on October 15th. The answer: Mr Kerry. (The New York Times also endorsed him.)

And I'll cry if I want to...

“It's time for a radical moderate. My party's made a hard turn to the right and this is a call to arms.”

Christine Whitman, a former Bush cabinet member, has a new book: “It's My Party, Too: Taking Back the Republican Party—and Bringing the Country Together Again.” New York Post, October 14th

Florida calling

“Come back in two hours. There are about 200 people in front of you.”

An election official in Pinellas County, Florida, overwhelmed by the number of people voting early. New York Times, October 19th

We can't hear you

“Hey England, Scotland and Wales, mind your own business. We don't need weenie-spined Limeys meddling in our presidential election. If it wasn't for America, you'd all be speaking German.”

An e-mail from America to the Guardian after the leftish British paper asked its readers to write to undecided voters in Ohio. The Guardian, October 18th

Gaffe of the week

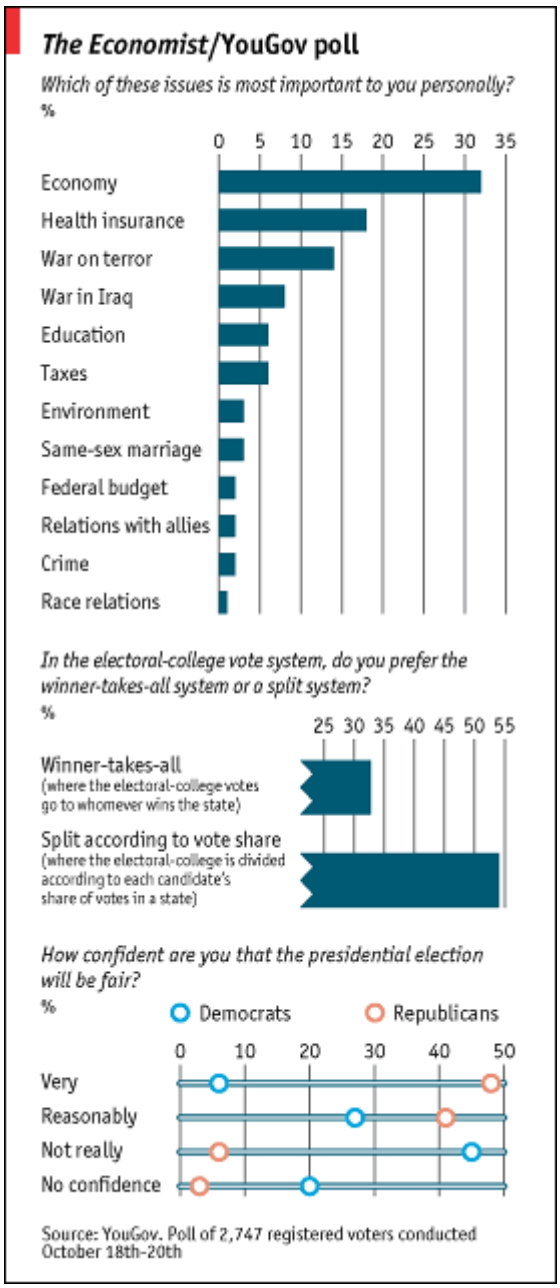
“I don't know that she's ever had a real job—I mean, since she's been grown up.”

Teresa Heinz Kerry, an erstwhile translator, on Laura Bush, who worked as a librarian and a teacher. Mrs Kerry apologised. USA Today, October 21st

Poll of the week

A poll by “Primetime Live” revealed that 56% of Republicans are very satisfied with their sex lives, but only 47% of Democrats are. More Republicans have worn something sexy to enhance their sex life, but more Democrats have faked an orgasm.

ABC News, October 18th



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The Alaska Senate race

Independent minds

Oct 21st 2004 | ANCHORAGE AND FAIRBANKS
From The Economist print edition

Alaska is holding its most important election for a generation

OUTSIDE, frost is forming. Alaska's vast mountains are reminders of infinity. But inside the suburban church, a very different scene unfolds. Toddlers in feathers and orange bikinis sway to Polynesian dances; 500 Pacific islanders eat clams and rush to shower the children with dollar bills. For this is a fund-raiser for the First Samoan Congregational Christian Church in Anchorage, Alaska.

The state's single congressman, Don Young, a Republican, once flourished a walrus penis-bone at the federal Fish and Wildlife Service director at a congressional hearing. But Alaska is changing. The Samoan compere says 93 languages are spoken in the Anchorage school system. Half a continent away, the state's oil-rich Arctic north counts 54 different ethnic groups, from Filipinos to Inupiat Eskimos.

The state Senate race is no less unexpected. The Democratic challenger, Tony Knowles, supports John Kerry in a state where registered Republicans outnumber Democrats by almost two to one and which George Bush (Mr Knowles's room-mate at Yale) will probably win by about 30 points. Alaska has not sent a Democrat to Washington for a generation, and Mr Knowles has never won a head-to-head fight with a Republican.

Yet things are not what they seem. Alaska is a conservative, but not necessarily a Republican, state. More than half of its voters are registered independents. Mr Knowles was a respected two-term governor and mayor of Anchorage, where almost half the voters live. He is probably better known and liked than the Republican incumbent, Lisa Murkowski.

Ms Murkowski got her job because she was appointed to it by her father, Frank, who served as senator for 22 years before resigning to win the governorship. The state has not quite forgiven her, and as a result Ms Murkowski is the only incumbent Republican senator in serious danger of losing her job. Mr Knowles has been ahead in ten out of 11 polls, has drawn level with Ms Murkowski financially and has a superior get-out-the-vote operation. There are allegedly 441,617 undecided voters in Alaska, and the Democrats have contacted every one of them at least once.

In some ways, argues Jerry McBeath of the University of Alaska Fairbanks, the race may not matter all that much to the state. The candidates take broadly similar positions on the most important state issues, such as whether to open up the Arctic National Wildlife Reserve (ANWR) to oil exploration (both are for it, along with everyone else in Alaska). But the contest is important to control of the Senate in Washington, DC. And it casts light on the nature of American politics more generally, for it raises the question: is it possible to be an independent-minded senator any more?

Is it possible to be an independent-minded senator any more?

If it is possible anywhere, it should be in Alaska. Washington, DC, is 3,000 miles away. The state is a world of its own, unimaginably vast and, like other western states, it has a prickly relationship with a federal government that owns two-thirds of its land. Yet it depends critically on federal tax dollars, of which it is the largest per-head recipient, because, as in Siberia, few people would live in a frozen wilderness without big government subsidies.

This year is also the right time to test whether Alaskans want an independent senator. Amazingly, the state sent the same three Republicans to Washington for 22 years until 2002. Ted Stevens, the senior senator and the central, presiding figure in Alaskan politics, is not up for election this year, and Congressman Young will win by a mile. But Mr Knowles, if he wins, would change the character of the delegation.

At a debate in Fairbanks this week, Mr Knowles argued that “I'll be an independent, not a follower.” He supports drilling in the ANWR, which Mr Kerry opposes. As governor, he says, he worked with Republicans and now argues that he could craft a bipartisan national energy policy which 22 years of all-Republican representation has failed to achieve. “The one-party strategy has failed,” Mr Knowles insisted. “I'll caucus with everybody, I like them all.”

In contrast, the Republican campaign is a disquisition on how a united delegation has brought home the bacon for the state. Mr Stevens has been chairman of the appropriations committee since 1997. In that time federal funding for Alaska has risen by two-thirds to just over $12,000 a head. Mr Young uses an analogy from traditional Alaska to argue that a unified delegation is needed. “Uncle Ted”, he says, is the lead dog. Mr Young is the wheel dog at the back who provides the pulling power. Ms Murkowski is the swing dog, the one in the middle who keeps the team together. Pulling together, the Alaska delegation managed to force through a new $20 billion natural-gas pipeline after a 20-year wait. “If you caucus with the Democrats”, Ms Murkowski warned her rival at the Fairbanks debate, “you get nothing done.”

Is she right? Independents are an endangered species in the Senate. John Breaux, the Democratic senator from Louisiana is retiring. Rhode Island's Lincoln Chafee, a Republican, is not loved by his party. Georgia's Zell Miller, a Democrat who addressed the Republican convention, has been rejected by both sides. Jim Jeffords, who was elected as a Republican, caucuses with the Democrats.

Yet Mr Knowles is one of several Democrats running in southern and western states to the right of Mr Kerry. The Alaska Senate race presents a stark choice between independence and party discipline. The result could influence not just the control, but the character of the Senate.

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Only in Alaska

Moose on the juice

Oct 21st 2004 | FAIRBANKS
From The Economist print edition

A seasonal tale that animal lovers might want to skip

WHEN the photograph began circulating on the internet, wildlife service officers assumed it was a hoax. It showed a 1,200-pound moose 50 feet in the air, suspended by its antlers from a power line in the middle of nowhere. This doesn't happen every day. The story seemed like a modern version of Baron Munchausen's tale of hitching his horse to a post in the winter night and waking up to find the snow had melted and his horse hanging from the church steeple. Yet it is true.

A bull moose, it seems, came across a power line under construction near the Teck-Pogo gold mine, 80 miles south-east of Fairbanks. As the *Fairbanks Daily News-Miner* put it, the animal, “in a testosterone-filled moment”, attacked the billowing wires, as rutting moose are wont to do. Miles away, the power-line workers chose that exact moment to reel in the wires to the top of the pole. Up went Bullwinkle, entangled in the lines.

He was not up there long. The largest member of the deer family provides drag noticeable even on an industrial winch. The construction crew rushed back, found the high-wire moose and hoisted him down. Alas, they could neither free the frantic animal, nor safely tranquillise him. Acting on the advice of the Alaska Department of Fish and Game, the moose was shot.

The ton of venison was donated to a local resident. But the fate of the antlers—five feet wide and qualifying for trophy status in Alaska—is unclear. The Fish and Game people are still waiting for a delivery of moose antlers from City Electric Inc.

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Politics in Colorado

Rocky Mountain tussle

Oct 21st 2004
From The Economist print edition

A Senate seat and a ballot initiative the Republicans desperately want to win

JUST how much are Colorado's votes worth? One answer is a handsome $11m. In a tight battle to seize the Senate seat being vacated by the Republican incumbent, Ben Nighthorse Campbell, the Democrats' Ken Salazar, the state's attorney-general, has raised $6m; meanwhile, the Republicans' Pete Coors, a beer tycoon, has raised $5m (including $400,000 that he loaned to his own campaign).

Now the contest, already the most expensive in the state's history, seems set to become ever more negative. Mr Salazar, who has around $800,000 left in his war-chest, accuses Mr Coors of being a know-nothing “rubber stamp” for George Bush and in hock to big business, to boot; Mr Coors, with some $676,000 on hand, charges Mr Salazar with being weak on national defence and wanting to raise taxes.

It does not make for an inspiring battle. As the *Denver Post*, which has endorsed Mr Salazar, put it recently: “Neither man strikes us as a natural-born campaigner.” Mr Coors is wobbly on detail, but he is also telegenic and has the name recognition that comes from his eponymous beer company. Mr Salazar, as a twice-elected attorney-general, is also well known and is certainly more articulate that Mr Coors. But even with his trademark white Stetson, he looks small and unimpressive when set beside the huge Mr Coors.

Most polls put the two neck-and-neck. In a state whose registered voters are 31% Democratic and 36% Republican, the vital third who are independent will, as usual, make the difference. But both candidates seem to be betting that the state's centre is still relatively conservative. Mr Coors is stirring up fears of the Democrats winning the Senate: a vote for Mr Salazar, he says, is one for putting Ted Kennedy in charge of the Senate Judiciary Committee. Mr Salazar paints Mr Coors as an extremist, while presenting himself as a centrist who can appeal to moderate rural Republicans as well as urban Democrats.

The Senate race has got muddled up with two other issues obsessing the Republicans—the presidential race and Amendment 36. The latter would end the system under which Colorado's electoral-college votes all go to the winner. Instead, the nine electoral votes will be allocated in proportion to the candidates' share of the popular vote. Only two states, Nebraska and Maine, have a similar, though not identical, form of vote-splitting. However, our YouGov poll this week shows that, nationwide, most people would prefer some form of proportional system.

If passed, Amendment 36 could have a dramatic effect. In 2000, Colorado's then-eight electoral-college votes went to Mr Bush. If, however, the system envisaged by Amendment 36 had been in place, Mr Bush would have received five votes and Mr Gore three, giving him 269 electoral-college votes, one more than Mr Bush. If Barbara Lett Simmons, a Democrat, had not in protest at the District of Columbia's “colonial status” turned in a blank ballot for one of DC's three college votes, Mr Gore would have had 270 votes—the magic number to be elected president.

If the voters approve Amendment 36, it will apply to the current election. Given Colorado's split personality, that is likely to mean five votes for one candidate and four for the other—followed by plenty of court challenges (there is already one protesting the “retroactive” effect).

Working on the basis that Mr Bush seems likely to win the state, the Republicans, through groups like Coloradans Against a Really Stupid Idea, have battled hard against Amendment 36. Their argument that such a change would make Colorado far less important in coming elections (why visit a state where the votes are likely to get split pretty evenly?) seems to have gained some traction. The latest poll shows 53% against the amendment.

The Republicans' attitude might change if Mr Kerry were to carry the state. He is in fact only five points behind, and the race has narrowed since the debates. The possibility of a Kerry victory in the state has dampened Democratic enthusiasm for the amendment; revealingly, Mr Salazar has belatedly joined Mr Coors in opposing it.

As for the effect of the presidential race on the Senate race, both campaigns invoke the candidates at the top of the ticket to mobilise voters (many of whom have already sent in their ballot papers). But there is a difference of emphasis: Mr Salazar does not tie himself as carefully to Mr Kerry as Mr Coors does to Mr Bush. Mr Salazar's spokesman confidently predicts that his man “will get a lot of Republican votes that John Kerry won't get”. That may be mixed news for the Democrats.

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Lexington

Divide and rule

Oct 21st 2004
From The Economist print edition

Political gridlock may not be quite as enticing as many fiscal conservatives hope

IS THE most desirable outcome of the election a draw? Not a draw in the sense of a perpetual Florida recount (though fears are growing that America could face not one hung state but five or six). But a draw in the sense of a divided government, with one party in charge of the White House and another in charge of at least one chamber of Congress.

A surprising number of right-wingers take this view. The most vocal advocates are based at the libertarian Cato Institute, whose chairman, William Niskanen, an economist who worked in the Reagan administration, argues that the constitution's checks and balances work much better when government is divided. In truth, though, you can hear plenty of other Republicans muttering that losing the presidency wouldn't be so bad. Better one term of Kerry than two terms of Hillary, they argue. Better a senator (no matter how liberal) who has never passed a law of any consequence than George Bush—the “reformer with results” who has passed all sorts of laws and vetoed nothing. Better a gridlocked government than a unified government under a spendthrift Republican.

Conservatives-for-gridlock point to 1995-2000, when Bill Clinton sat in the White House and the Republicans held the House: a time of spending restraint, soaring surpluses and prudent welfare reform. Contrast that with the splurging of the past two years under all-Republican rule. They conclude that gridlock imposes discipline by reinforcing the most important principle in the American constitution—frustrating legislative zealots. Gridlock forces both parties to compromise. And compromise brings two wonderful things in its wake: it reduces the quantity of legislation that can grind its way through the legislative mill, and it improves the quality. The parties eliminate each other's worst excesses while compromising on sensible centrist legislation. Mr Niskanen points out that the biggest increases in spending over the past half-century have occurred under unified government (under Lyndon Johnson and the current Mr Bush) while the smallest increases have occurred under divided government (under Eisenhower and Mr Clinton).

An open-and-shut case? Not quite. It is true that a Kerry victory has the biggest chance of producing gridlock: the Republicans stand little chance of losing the House, thanks to gerrymandering, and they have a better than even chance of keeping control of the Senate, where the Democrats have more vulnerable seats to defend. But they may be wrong to think that gridlock will necessarily produce more prudent lawmaking.

One problem with the gridlock argument is that it may be mistaking coincidence with cause. There are other possible explanations for the “Clinton surplus”. One is the economy. Alberto Alesina, a professor of economics and government at Harvard, points out that the 1990s saw an unusual combination of factors: an economic boom that poured money into the taxman's coffers and a post-cold-war “peace dividend” that reduced defence spending from 5.8% of GDP in 1988 to 3.1% in 1998. Another difference was the political climate. Spending control was in the air regardless of whether Congress was gridlocked. Ross Perot won 19% of the vote in 1992 by running against the deficit. In 1993 Mr Clinton was fairly quickly persuaded to embrace Robert Rubin's strategy of reducing the deficit rather than stimulating the economy from the start, and his deficit-reduction package was approved by the then Democrat-dominated Congress.

Sarah Binder, who studies gridlock at the Brookings Institution, has little time for the idea that gridlock is a *deus ex machina* to produce sound government. She argues that the Clinton surplus was not the unintended consequence of a divided government but the positive result of three sensible laws: the Budget Enforcement Act of 1990 (which George Bush senior forced through a Democratic Congress); Mr Clinton's Omnibus Budget Reconciliation Act of 1993; and the Balanced Budget Act of 1997. Look at the figures for deficits since the second world war, and there is no clear relationship between gridlock and spending control.

A good thing perhaps, but no deus ex machina

Nor is the pre-Clinton history quite as clear-cut as the advocates of gridlock suggest. Some of the worst deficits (ie, of more than 3% of GDP) occurred during periods of divided government—under Harry Truman in 1948, Gerald Ford in 1975-76 and Ronald Reagan in 1982-89. Divided government can sometimes stimulate rather than depress lawmaking. The Clean Air Act of 1970 was strengthened by competition between Richard Nixon and the Democratic Congress (where a presidential aspirant, Edmund Muskie, controlled the relevant Senate committee). Divided government can also produce bad laws by obscuring accountability and encouraging each side to demand its own share of the pork. The Economic Recovery Tax Act of 1981 was so stuffed with giveaways for both Republicans and Democrats that it inspired such classic phrases as “Gucci Gulch” and “Christmas-tree legislation”.

None of this should automatically damn either Mr Kerry or gridlock. After all, it is possible that Mr Kerry will be true to his word and put deficit-reduction at the heart of his administration. He has a decent record as a fiscal hawk in the Senate. He has also promised to re-introduce pay-go rules (stopping the government spending money it does not have) and spending caps. But he has also promised all sorts of things to all sorts of people. As for gridlock, there are plenty of non-fiscal reasons to hope for divided government. It would make it harder for the president to trample over the interests of the “out” party, and it would bring the balance of power in Washington into line with the balance of power in a 50:50 nation. But it will not automatically increase the chances of balancing the budget or passing sensible laws.

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Colombia's paramilitaries and drug lords

Lording it over Colombia

Oct 21st 2004 | BOGOTÁ
From The Economist print edition

AFP

Colombia's drug lords are forming unholy alliances with right-wing paramilitaries in an attempt to get themselves amnesties

Get article background

THEY have new names like “Gabriel Galindo”, political chief of the “Pacific Block”, and “Pablo Arauca” of the “Conquerors' Block of Arauca”. They are still some of the most notorious drug lords in Colombia; but now they have suddenly morphed into commanders of various factions of the right-wing paramilitaries known as the United Self-Defence Forces of Colombia (AUC).

With the United States stepping up both the fumigation of their coca crops and the pressure on their drug dealers, and with the promise that some paramilitaries could get amnesties out of peace talks with the government, renowned drug lords like Francisco Javier Zuluaga (who moved money for the Medellín cartel) and Victor Manuel Mejía (in whose Bogotá flat police discovered $35m in cash) have been donning paramilitary fatigues and creative titles. Recently a weekly magazine, *Semana*, reported that Diego Montoya Sánchez, the head of the Norte de Valle cartel, who is on the FBI's “ten most wanted list” alongside Osama bin Laden, had bought the AUC's “Heroes of Rionegro” block for $5m and is now sporting camouflage.

There are some 20,000 paramilitary fighters in Colombia, spread all around the country. They have had ties to drug trafficking ever since their founding in the 1980s by wealthy landowners looking to combat leftist rebels, the Revolutionary Armed Forces of Colombia (FARC). But those ties have grown stronger, with some now claiming that the groups' primary purpose is drug dealing. “Criminals, narco-traffickers, assassins and thieves” is what William Wood, America's ambassador in Bogotá, recently termed the AUC.

The phenomenon of drug barons adopting paramilitary gear, though, is more recent. Born-again warlords like Messrs Zuluaga and Mejía, neither of them “anti-subversives” in the strict sense, have rallied to the cause because the peace process offers them a unique chance potentially to launder their assets and receive judicial benefits for “demobilising”. The fact that the paramilitaries have always relied on the drug trade too blurs the line between the two groups. But neither the United States government nor the Colombian government is fooled, says one American counter-narcotics official: “These are drug traffickers, who are trying everything they can to find the open window.”

The newest AUC converts appear to be taking advantage of the safe haven in Santa Fe de Ralito, a

village in north-western Colombia. For the six months beginning last July, it has been declared a demilitarised zone, where warlords are allowed to live while negotiating peace. (A similar, though less secure, zone was created in southern Colombia for peace talks with the FARC, which broke down in 2002.)

Several narcos have been spotted there, including Mr Zuluaga and Mr Mejía. Another, Gabriel Puerta Parra, wrote to AUC commanders asking for refuge in Ralito and a new identity as “Commander Agamez” before being captured earlier this month. Shortly before that a political firestorm blew up when Juan Carlos Sierra Ramírez, a particularly notorious trafficker, was discovered hiding out in Ralito, which the government moved to quell by agreeing to the United States' request to issue an extradition order for him.

The presence of pseudo-paramilitaries further complicates what is anyway an extremely murky peace process. The United States has already indicted three members of the AUC's 14-man negotiating team on drug-trafficking charges, has placed an extradition request for one of them—Salvatore Mancuso, the AUC's military chief—and may be investigating others.

But in the 22 months of talks since the paramilitaries called a ceasefire (often violated), not much has happened except the creation of Ralito and the disbanding of two small paramilitary blocks, of whom most are street bandits rather than hard-core fighters. In its boldest move yet, the AUC this month offered to let 3,000 troops go, beginning in November, in what would be the biggest demobilisation of irregular fighters in Colombian history. But many question whether it will simply be a show, with drug-runners then recruiting the newly demobilised fighters.

Nor has the Colombian government yet decided how to handle ex-guerrillas. The vast majority is likely to go free under a law that grants pardons to those who have joined irregular armies. But AUC leaders, such as Mr Mancuso, many of whom have committed kidnappings and massacres as well as trafficked in drugs, would be eligible for jail time or extradition. Yet they say they will not lay down arms without a guarantee that they won't serve time. A bill to define their fate is languishing in Congress, which is currently busy with a debate on allowing Álvaro Uribe, who initiated the peace process, to seek a second presidential term.

In an interview with *Semana* this week, Carlos Alonso Lucio, an ex-guerrilla and now AUC advisor, put the paramilitaries' cards on the table. He suggested that the only way to prevent the AUC's ragbag of irregular fighters and accused criminals from being sold to the highest bidder was to absorb them into the Colombian army. And instead of jail time for Mr Mancuso and company, Mr Lucio suggested that they take charge of a massive programme, monitored by the United States, to eradicate coca crops and replace them with legal substitutes (which would lose them a profitable crop, but probably let them keep their land). The chutzpah of such a proposal suggests that the AUC believes that it holds the upper hand in negotiations. If the drug barons believe that too, they must be celebrating.

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Chile's new constitution

Untying the knot

Oct 21st 2004 | SANTIAGO
From The Economist print edition

Chile looks set to purge the vestiges of dictatorship from the constitution

Get article background

WHEN Ricardo Lagos became Chile's president in March 2000, he promised “a constitution that passes the test of full democracy”. Thanks to a new cross-party agreement, that promise now seems close to being fulfilled.

The constitution, written by General Augusto Pinochet's 1973-90 dictatorship, was approved by a plebiscite in 1980, but its legitimacy was as thin as the transparent voting papers used in the plebiscite, and its intentions were just as undemocratic. Foreseeing the eventual return of elected governments, the constitution sought to perpetuate the armed forces' political power. It established that nine non-elected senators, four of them former military and police commanders, would sit alongside 26 (now 38) elected ones; it gave General Pinochet a Senate seat for life; and it deprived elected presidents of their right to dismiss military commanders-in-chief or the chief of police.

The constitution further tightened the knot by requiring majorities of up to two-thirds in both houses of Congress for its own reform. To prevent such majorities, it also introduced a binominal electoral system, in which each constituency elects two members to each house. To get both seats, a party or coalition must get double the vote of the runner-up. The centre-left coalition in power since 1990 has never won enough seats to change the constitution.

But earlier this month the Senate voted unanimously to abolish the non-elected senators as soon as their terms expire in March 2006, and eliminate life seats for former presidents. It also agreed to restore the president's right to sack military commanders. The reforms must still get through the lower house, but the deal's brokers—José Miguel Insulza, the interior minister, and Hernán Larraín, the Senate's president, who is from the opposition Independent Democratic Union (UDI)—both say they are confident that by the end of next year the reforms will, in essence at least, be law.

The deal came about partly because 14 years of elected government have eroded the dictatorship's curbs on democracy. The current five civilian non-elected senators, appointed in 1998, are mainly loyal to the government, not the dictatorship. And military commanders who are at odds with the government have usually, sooner or later, found it expedient to resign.

Another help has been General Pinochet's own declining power since his arrest in London in 1998 on human-rights abuse charges. In 2002, after the Chilean supreme court ruled that senile dementia made him unfit to face trial, he was forced to resign his Senate seat too (even senators-for-life need to be compos mentis). And the news in July that he held several undisclosed accounts at Riggs Bank in Washington, DC, prompting the Chilean tax office to sue him for back taxes, destroyed his already threadbare myth of being an honest dictator. A recent poll found that 59% of Chileans believe he stole the money.

The UDI, which had previously resisted constitutional reform, also had reasons to make a deal. Distancing itself from the dictatorship, which many of its members had supported, helps its electoral chances. And its candidate for next year's presidential election, Joaquín Lavín, is strong “on economic and social issues; he'll be much more effective with constitutional reform out of the way,” says Mr Larraín.

But the agreement still leaves the controversial binominal electoral system intact (although it will not be in the constitution, making it slightly easier to abolish). Critics say that, because most constituencies

return one candidate from each coalition, lawmakers are not really elected at all but appointed by their parties. But the UDI says the system guarantees the stability that is at the root of Chile's economic success. And even Mr Insulza, who opposes it, is not unduly perturbed. Eventually, he predicts, it will fall under the weight of its own illegitimacy—just like the dictatorship's other legacies.

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Discontent in Paraguay

Caught in the triangle

Oct 21st 2004 | ASUNCIÓN
From The Economist print edition

The president faces rising crime, angry peasants and disgruntled businessmen

THIS week Paraguay's president, Nicanor Duarte, returned from a trip to Europe with the Grand Cross of Merit of the Sovereign Military Order of Malta dangling around his neck and some difficult tasks on his hands. He had already had a tough time selling overseas investors a new image of Paraguay. Two days into his visit he had had to fire the interior minister and a senior police chief and order troops on to the streets, after police found the mutilated body of a tobacco baron's kidnapped ten-year-old son. Meanwhile, the family of Cecilia Cubas, the daughter of a former president, is still trying to negotiate her release with kidnappers who snatched her a month ago.

Just over a year into his term, Mr Duarte has in fact done a good job of clearing a backlog of debts and adopting most of the reforms that the IMF demanded as part of a stand-by loan agreement last year. However, the kidnappings, which brought 5,000 people out in protest last week, are just one result of long-term social problems now coming to the surface.

Paraguay has a rich rural economy, and agri-business accounts for most of the country's export revenues. But more than 40% of the rural population lives in poverty. Over 1m people have no clean drinking water, and earlier this month UNICEF reported that one in seven children under five suffers from chronic malnutrition. There is little industry; even soy, which makes up 75% of agricultural exports, is sent abroad to be processed, and re-imported as veggieburgers.

Three decades of land reform and subsidies have had little success. Peasants say at least 144,000 hectares in the land reform were illegally allocated, particularly to friends of Alfredo Stroessner, Paraguay's dictator for 35 years. By some estimates 300,000 peasants are landless. For the past 15 years they have held annual protests against the land reform, privatisation, free trade, and most recently—part of the IMF agreement—the proposed abolition of value-added-tax exemptions for the poor.

This year the protests have turned more violent. In the last two months there have been some 60 land invasions, which the police have been reluctant to stop. Some invaders have left of their own accord; others have been forced out, and occasionally killed, by militias hired by the landowners. This week they promised new invasions.

A newly created “crisis cabinet” has come up with money to buy 25,000 hectares of land for the dispossessed, and promises to send agriculture experts to the countryside. But peasants remain defiant. “We have nothing to lose, nothing to eat, no land. Our children are poisoned with pesticides. We are dying slowly,” says Antonio Gayoso of the MCNOC, one of the largest peasant organisations.

But while failing to satisfy the peasants, Mr Duarte has simultaneously alarmed businessmen by adopting populist talk that makes it look as if he approves of the land invasions. To make matters worse, one of his allies in Congress recently suggested higher levies on raw soy exports (to encourage domestic soy processing, he said), and the proposal this month of a controversial new land tax has prompted soy producers to stop planting. Pablo Herken, a private economic consultant, estimates that the stoppage could already have lost the economy a potential $80m.

Indeed, it is a booming agri-business that has kept Paraguay from bankruptcy over the past five years. There have been large investments in modern dairy plants and slaughterhouses. Rather than discouraging such business, says Efraim Alegre, a deputy from the opposition Liberal Party, the government should be giving it incentives while trying to wean the country off the so-called “triangle economy” of Ciudad del Este, on the border between Paraguay, Brazil and Argentina.

Up to 30% of state revenues come from taxes on imports and exports in the tri-border area; but that is just on the legally-traded stuff. Electronic gadgets are brought in at under-declared value, while Paraguayan cigarettes and other goods are smuggled to Brazil. The Importers' Centre, a business chamber, says that up to 70% of imports evade customs duties.

Margarita Díaz de Vivar, the director of customs appointed by Mr Duarte, began a clean-up. This week she announced that annual customs takings rose by 89% during the government's first year. But powerful interests may benefit from the illegal trade. Prosecutors recently found that Latina Imports, a firm linked to the family of Luís María Argaña—an assassinated former vice-president—had imported $4m of electronic goods over a six-month period but reported no sales. Mr Duarte has some cracking-down to do; but his tools are not the best. This week soldiers patrolling the streets were ordered to carry catapults, because few can afford the bullets that they themselves are obliged to buy.

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Unrest in Haiti

Blame game

Oct 21st 2004 | MIAMI
From The Economist print edition

Armed groups take to the streets

AP

Seeing no evil with Aristide

LITTLE more than six months after the latest regime change in Haiti, heads are beginning to roll—literally. More than two weeks of street violence in the slums of the capital, Port-au-Prince, have claimed an estimated 55 lives, including three policemen who were found beheaded.

Haitians have plenty to be upset about. The interim government that took over after Jean-Bertrand Aristide, the president, was deposed in February has made painfully slow progress. Haitians were promised public-works projects financed by $1.5 billion in foreign aid approved in July, but not much has been disbursed.

On top of that, Hurricane Jeanne last month killed an estimated 1,800 people, and left tens of thousands more homeless. The government was again slow, leaving the relief effort to UN peacekeepers and international aid agencies. Composed of technocrats—the interim prime minister, Gérard Latortue, is a former UN economist who spent most of his career in Africa—it lacks the common touch.

Perhaps sensing a weakness, armed groups have taken to the streets calling for Mr Aristide's return. Police and UN troops sent to subdue gunmen in one slum met fierce resistance, and a round-up of several militants, including a popular slum priest, only sparked more violence.

Exactly who is behind it is unclear. Most suspicion falls on the gangs of youths known as *chimères*, who were enforcers for Mr Aristide. After his ouster they appeared to fade away except for sporadic, small street demonstrations. The government claims that they have regrouped and started a campaign called “Operation Baghdad”. It believes Mr Aristide is still pulling the strings, fomenting chaos in Haiti to let him return. Mr Latortue lashed out this week at South Africa—which granted Mr Aristide asylum at the request of Caricom, the Caribbean nations' umbrella group—insinuating that it is turning a blind eye to the ex-president's mischief.

But establishing facts is a near impossibility in Haiti, where claims and counterclaims fly freely. Mr Latortue provided no evidence of Mr Aristide's alleged machinations. Members of Lavalas Family, Mr Aristide's political party, denied them and instead blamed former army officers who led the armed rebellion against Mr Aristide in February. They argue that by creating chaos and showing up the police as inadequate, the former officers hope to make the case for reconstituting the army, which Mr Aristide disbanded in 1995.

Whoever the instigators are, there has been little effort to disarm the armed groups on both sides. Pro-Aristide gunmen continue to control the slums, while the former officers have taken over smuggling operations in several port towns.

That has triggered another blame game, this one between the United States, which sent a Pentagon team to visit Haiti earlier this month, and the UN, which is running a peacekeeping mission there. The UN has been slow to get its peacekeepers on the ground. It authorised a 6,700-strong “stabilisation” force to take over from the American marines who dealt with the immediate aftermath of Mr Aristide's departure. But so far barely 3,000 troops have arrived.

The Brazilian-led UN force says it lacks the strength to demobilise the armed groups. American officials suggest that the UN troops should be more aggressive. Some observers are calling for greater American engagement, questioning why the marines were pulled out so early. But with America's attention focused on Iraq and the presidential election around the corner, it seems the UN will have to go it alone for the time being.

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Indonesia

Hail to the chief

Oct 21st 2004
From The Economist print edition

EPA

Up to a point

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SUSILO BAMBANG YUDHOYONO, who was sworn in as Indonesia's president on October 20th, is a hard man to read. During the month-long transition between his election and inauguration, he consulted such a motley array of advisers that it was impossible to tell where his own instincts lay on any given subject. His public statements, although unobjectionable, were studiously vague. Many pundits were hoping that he would at last reveal his true colours when he announced his cabinet, in the small hours of October 21st. They were disappointed: the president's choices—and his intentions—remain frustratingly ambiguous.

There are four former generals among the 36 ministers, frightening those who believe that Mr Yudhoyono, a former general himself, has authoritarian leanings. On the other hand, as defence minister the new president chose Juwono Sudarsono, a civilian who held the post once before, at a time when the government was struggling mightily (and, it has to be said, largely fruitlessly) to bring Indonesia's powerful armed forces under control.

The economic team is equally muddled. The co-ordinating minister will be Aburizal Bakrie, an ex-chairman of the chamber of commerce. A background in business would be an asset, were it not for the fact that Mr Bakrie's conglomerate ran up debts of roughly $1 billion during the Asian financial crisis. On the other hand, Mr Yudhoyono called back an employee of the Asian Development Bank to serve as finance minister, and the regional head of the IMF to run the planning ministry.

His minister of trade, Mari Pangestu, is a known free-marketeer who will probably push for the reversal of protectionist measures imposed by the outgoing government, including a ban on rice imports—though that is not to say that she will necessarily prove successful.

The new attorney-general, who will lead a long-expected campaign against corruption, is Abdul Rahman Saleh, a respected Supreme Court judge. He used to preside over the judiciary's internal anti-graft campaign, which has won praise from NGOs. He earned further praises when he boldly dissented from his fellow judges when they acquitted a suspected embezzler last year. Mr Saleh has some sensible counter-corruption schemes in mind, such as giving a new body that scrutinises the conduct of judges the job of keeping tabs on policemen and state prosecutors as well.

Nonetheless, Mr Saleh is hardly the attack dog many Indonesians had expected. They had hoped that a known and exceptionally brave reformer, Marsillam Simandjuntak, would get the job—and until the last moment all the indications had been that Mr Marsillam, or Todong Mulya Lubis, another reformer, had it in the bag. It is still not clear what went wrong, but this is surely not a good sign. What is more, Mr Yudhoyono has signalled to businessmen that he will not pursue them for past misdeeds as long as they abide by the law from now on.

Politically, too, Mr Yudhoyono is hedging his bets. He has appointed several cabinet ministers from Golkar, the biggest party in parliament, despite its leaders' vow to keep the party in opposition. Indeed, Mr Yudhoyono has included both Mr Bakrie, a member of Golkar in good standing, and Fahmi Idris, who was expelled for criticising the party leadership.

The Crescent Star party, a radical Muslim outfit, the National Awakening party, at the opposite end of the Islamic spectrum, and his own, secular Democrat Party are all represented. The only big party left out is that of Megawati Sukarnoputri, the outgoing president—although Mr Yudhoyono did keep five of Miss Megawati's ministers in place, including Hassan Wirajuda, the foreign minister, and Purnomo Yusgiantoro, the energy minister and current head of the Organisation of Petroleum Exporting Countries.

Some observers read all this as a sign that Mr Yudhoyono does not really know his own mind, or, worse, does not have the courage to take on Indonesia's discredited but entrenched political elite. In all likelihood, however, it is simple pragmatism. The Democrats hold only a tenth of the seats in the lower house of parliament. The parties that supported Miss Megawati's presidential bid, including Golkar, command a majority. Mr Yudhoyono needs to win over a big portion of Golkar's members if he is to have any hope of enacting his agenda. By that measure, the appointment of Mr Bakrie may be a small price to pay.

What is more, both Mr Yudhoyono and Indonesia are new to all this. He is the first president to be elected directly, instead of by parliament, and only entered politics himself four years ago. No one knows how much authority the president will derive from his popular mandate, for example. Members of parliament, for their part, still seem uncertain whether they will follow a Westminster model, with clear lines drawn between the government and opposition, or resort to impromptu alliances based on the issue at hand.

During the campaign, Mr Yudhoyono sold himself not as a radical reformer, nor even as a man of action, but as a thoughtful, level-headed leader. He clearly places a premium on unity—witness his frequent assertion that his priority in office will be defusing Indonesia's various separatist movements. He has even dubbed his new ministerial line-up the “United Indonesia Cabinet”. Since his victory, he has tried repeatedly to contact Miss Megawati (who refused to concede defeat, much less speak to him) in the name of “reconciliation”. He will presumably govern in a similarly cautious, consensual manner. That need not necessarily mean that his many pledges of reform will come to naught. But it might take him his full five-year term to make good on them.

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India

Role reversal

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A state election gives both big parties headaches

AP

Has Pawar's time come?

BEFORE India's general election in April and May, pundits were asking whether the Congress party, then in opposition, was in terminal decline. After its unforeseen victory was repeated on October 13th in an election in the state of Maharashtra, some of the very same pundits are asking the very same question about its main rival for national power, the Bharatiya Janata Party (BJP).

This was an election that, by the normal rules of Indian politics, the BJP and its local ally, Shiv Sena, should have won. Few governments, if any, are able to make much of a dent in the miserable poverty endured by most Indians, even in Maharashtra, the country's wealthiest state, so incumbency is a disadvantage. In Maharashtra, even Congress leaders admitted that the coalition government the party led there had performed badly.

Yet the Congress alliance won 141 of the 288 seats, compared with 117 for the BJP and Shiv Sena. For Shiv Sena, which has a vile record of demagoguery and anti-Muslim thuggery, this was a serious setback. The party's rabble-rouser-in-chief, Bal Thackeray, is in poor health and could not campaign. His son and nephew are competing for the succession. Optimists interpret this year's elections as showing that the old message of communal hatred is losing impact in favour of the Indian trinity of livelihood issues—roads, water and electricity.

The BJP, too, is a Hindu-nationalist party, but is increasingly split between moderates, who want it to broaden its appeal, and advocates of sticking close to *Hindutva*, the party's original Hindu ideology. A few hardliners have already quit, seeking to revive the Jan Sangh, a party from which the BJP is itself descended. The Jan Sangh's Prafull Goradia accuses the BJP of “giving up its reason for existence”.

Defeat in Maharashtra has now dented the illusion the BJP has clung to since the general election: that the Congress-led coalition would speedily collapse. It has also uncovered the bitterness of the power struggle among its second-rung leaders, those waiting to take over from Atal Behari Vajpayee, prime minister until May, and his deputy, Lal Krishna Advani. Both men are in their late 70s and, surely, unlikely to lead the party into the next election if the present government lasts anything like its full five-year term.

After the Maharashtra result, the party's president, Venkaiah Naidu, resigned. But as Rajdeep Sardesai, of NDTV, a television news channel, cuttingly put it, the old order changeth, yielding place to the older. Mr Advani, the party's battle-hardened war-horse, who led its rapid march to national prominence in the early 1990s, saddled up again, for his third stint as president.

Congress's glee at its main rival's disarray was tempered by troubles of its own. It won fewer seats in Maharashtra than did its coalition partner, the Nationalist Congress Party (NCP), led by Sharad Pawar, the agriculture minister in the central coalition. The two parties then squabbled bitterly about who should lead the new state government.

The NCP was formed as a breakaway from Congress in 1999 in protest at the “dynastic and authoritarian” appointment of Sonia Gandhi, who was born in Italy, as its leader—a post that Mr Pawar had coveted. Some analysts, pointing to Mr Pawar's hostile past relations with Congress, foresee troubles

ahead at the centre, as smaller parties, such as his, dream of a “third front” coalition without either of the two big parties. For now that is more of an arithmetic possibility than a real threat. That some see it as more of a danger than the BJP is a measure of how fast that party's fortunes have fallen.

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Pakistan

The general's dilemma

Oct 21st 2004 | LAHORE
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President Musharraf must soon decide whether to doff his uniform

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THE opposition was not happy on October 14th, during the passage of a bill that would enable General Pervez Musharraf to be president of Pakistan and army chief at the same time. When the speaker abruptly terminated a debate on the subject and readied to pass the bill, opposition MPs besieged his podium, shouting slogans against him and General Musharraf. They shredded copies of the bill, tried to break the speaker's microphone and demanded the death penalty for “those who had overthrown the constitution”. Then they walked out in a huff. The speaker ordered a swift second and third reading of the bill and pronounced it passed. It now goes to the Senate, on October 27th, where it is assured of approval in a similarly raucous manner.

The opposition's ire is understandable. On December 31st 2003, General Musharraf pledged to shed his uniform and become a purely civilian president within the year. This was part of a constitutional deal which he cut with the Muttahida Majlis-i-Amal, a six-party religious alliance that boasts a quarter of the seats in parliament. It enabled the president to amend the constitution by the required two-thirds majority, legitimising his 1999 coup and subsequent orders. Of late, however, he has had second thoughts. Pakistan, he says, is passing through a critical phase and the national interest demands that he retain his powers as head of the army. He says that “96% of Pakistanis” support him and want him to stay on as army chief.

On the face of it, General Musharraf's power seems impregnable. He has recently shuffled the army high command and installed loyalists in key positions. The outside world is enormously pleased with his co-operation in the war against terror and is keeping quiet about the fate of democracy in Pakistan. The economy has turned the corner and is growing at over 6%. Relations with India are peaceful for the first time in two decades and as a result there is no threat of war.

But there are disquieting signs everywhere. The “Islamic blowback” manifests itself daily in suicide bombings and sectarian warfare. Top army and civilian leaders, especially General Musharraf and the new prime minister, Shaukat Aziz, remain prime assassination targets. A nationalist insurgency is brewing in Baluchistan province, where gas pipelines are routinely attacked. The campaign to flush out foreign terrorists hiding in the tribal areas of Pakistan has taken a heavy toll of soldiers and alienated local tribesmen. Jobs are hard to find and inflation is rearing its head. If the general breaks his promise and picks a fight with the opposition, next year could bring Pakistan more, not less, instability.

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Cambodia

Sihanouk's second reign ends

Oct 21st 2004 | PHNOM PENH
From The Economist print edition

Cambodia gets a new king

WHEN its 81-year-old king, Norodom Sihanouk, insisted on abdication in August, Cambodia was threatened by a constitutional crisis: there was no obvious successor. But, after weeks of fevered speculation about unrest and violence, the nine-member Throne Council was eventually spurred into action. On October 29th, the era of the flamboyant Sihanouk, who led Cambodia to independence in 1953, is due to come to an end, when he hands over the role of constitutional king to his little-known son, Norodom Sihamoni.

The continuity of monarchy based on the long line of Cambodian god-kings that once presided over the mighty civilisation of Angkor and its many temples had long been in doubt. King Sihanouk's fragile health has recently deteriorated. The king himself has often expressed his concerns about the demise of the monarchy. But these fears subsided once members of the Throne Council, who included the prime minister, Hun Sen, announced their unanimous support for Prince Sihamoni, an accomplished traditional dancer and Cambodia's ambassador to UNESCO.

Until the past few months, another son (and former prime minister), Prince Norodom Ranariddh, had been the favourite to succeed his father. However, Ranariddh was widely felt to be ineligible as president of one of Cambodia's largest political parties, FUNCINPEC. Several other princes have been linked to coup plots, real or imagined, and have similarly been disqualified as credible candidates. Hence the mounting panic among Cambodia's many royalists.

Sihanouk, who first abdicated in 1955 to become a prince and a politician, survived coups, wars, genocide and self-exile. The Cambodian monarchy, deposed in 1970 in the American-backed coup of Lon Nol, was restored only after an election in 1993, when Sihanouk resumed his throne. Now the show will go on, at least for a while.

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Myanmar

A darker shade of bleak

Oct 21st 2004 | BANGKOK
From The Economist print edition

One tough follows another

AS NUMBER three in the hierarchy of a regime known best for its brutality, General Khin Nyunt, Myanmar's prime minister and head of military intelligence, was no cuddly liberal. But his ousting on October 19th, to be replaced by General Soe Win, a martinet identified with the army's hardliners, leaves a sense of deep foreboding about the country's future.

The 65-year-old General Khin Nyunt was “permitted to retire for health reasons”, according to an official statement. It made no reference to accounts emerging from diplomats that he was placed under house arrest and charged with corruption, while one contingent of troops sealed off his house and another raided his military-intelligence headquarters.

Senior officials among Myanmar's South-East Asian neighbours play down the significance of these events. The ruling junta's senior general, Than Shwe, was in charge before General Khin Nyunt's removal and is so now—so there will be no change of course. The differences that brought the downfall arose more from a conflict of tactics and personalities, they say, not of principles or objectives.

Still, the prime minister's departure removes the one senior member of the junta who offered any hope of reconciliation between the junta and the pro-democracy leader, Aung San Suu Kyi. Since his appointment as head of military intelligence 20 years ago, General Khin Nyunt had acquired a reputation as a man one could do some business with. He became the first port of call for diplomats like Razali Ismail, the UN's special envoy, who invested years of effort in trying to promote working relations between Ms Suu Kyi and the armed forces. Unfortunately, none of these efforts yielded any success.

As part of that process, the army released Ms Suu Kyi from house arrest in 2002 and allowed her to resume political activity. But popular interest in her activities clearly discomfited the junta. In a murderous attack on her entourage in May last year, scores of followers were beaten to death and many more injured. Ms Suu Kyi escaped physically unscathed but was hustled back into house arrest, where she has remained ever since. General Khin Nyunt's successor stands accused by America of direct involvement in that attack.

Three months later, General Khin Nyunt became prime minister and quickly issued a plan for restoring democracy. As part of it, Myanmar set up a national convention to prepare a new constitution. However, the junta's refusal to release Ms Suu Kyi prompted her party, the National League for Democracy, to boycott the convention, wiping out its credibility.

General Khin Nyunt's main success arguably came in negotiating a series of ceasefires with Myanmar's ethnic minorities, bringing some respite from their long battles for autonomy. This relationship, too, has proved bumpy. Some minorities attending the convention strayed from the authorised script to raise issues the junta had no intention of debating.

General Khin Nyunt could only attempt these initiatives because the junta let him. But without him, the junta now lacks any generals who might be ready to explore political compromise. Myanmar's future looked bleak long before General Khin Nyunt's removal, observes one Myanmar-watching diplomat. “Now it's a darker shade of bleak.”

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Malaysia

Forging a nation

Oct 21st 2004 | KUALA LUMPUR
From The Economist print edition

Malaysia's new model army tackles self-segregation

AP

Spot the Chinese

IN A prefabricated building at the edge of the jungle, some 100 young Malaysians are discussing their failings. They talk about the need to show greater respect for the common good, to take more interest in the future of the nation and to build ties between Malaysia's three biggest races: Malays, Chinese and Indians. In fact, they are already doing so, by participating in the country's new National Service programme—a sort of state-run, civic-minded summer camp designed to force Malaysian teenagers of all races to mix. But when the formal discussion ends, and the participants drift off to lunch, the integration also stops. Malays, Chinese and Indians all split up into separate groups, to follow their respective dietary restrictions, speak their different languages and mingle with their own kind.

This sort of voluntary segregation is precisely what the National Service programme is designed to combat. On the whole, Malaysia's races rub along quite well. There has been little outright violence since a traumatic burst of rioting in 1969. Chinese and Indians, for the most part, grudgingly accept the government's various preferment schemes for the Malay majority as the price they must pay for stability and security. But for all this outward harmony, Malaysians tend to live, work and socialise among members of their own community. Almost all political parties are in practice organised along racial lines. Intermarriage is rare.

Children of different backgrounds do not even mix in school, thanks to the Chinese and Indian communities' insistence that children should study in their native language. About 90% of Chinese children attend state-financed Mandarin-medium schools, while some 70% of young Indians are taught in Tamil. That leaves very few non-Malays studying in the mainstream public schools, where Malay is the main language of instruction. (In all schools, maths and science are taught in English.) So from an early age, Malaysians become accustomed to racial segregation.

If anything, this trend has strengthened recently, to the government's alarm. Before his retirement last year, Mahathir Mohamad, Malaysia's long-serving prime minister, decreed that the country should attempt to forge a united “Malaysian nation” by 2020. Hence the National Service, which parliament mandated “to achieve unity and national integration”, among other goals.

This year, the government has drafted 85,000 17-year-olds to take part in the three-month programme. Those who fail to turn up face fines, and must still attend the next session. The participants are assigned to spartan camps in rural areas according to a complex formula designed to maximise diversity. People

from different regions and races are thrown together within each of the six-man canvas tents that serve as accommodation.

The training itself consists in part of half-baked military drills and learning dubious skills such as climbing ropes and finding edible roots in the jungle. But the trainees also clean bus shelters or plant trees, and visit hospitals, police stations and orphanages in an attempt to promote volunteer work. Most important of all, they hold formal discussions about Malaysia's history, constitution and government. That, some of the participants confide, provided their first opportunity to hear how members of other races view the country's racial divisions—normally a taboo subject.

The programme has had plenty of teething problems. Many of the notices informing people that they had been selected went to the wrong addresses. So many failed to show up that the government laid on extra sessions for the truants. It has also struggled to recruit Chinese and Indian staff. There were many reports of gangs (organised by race) and crime, prompting the authorities to reduce the size of each camp and improve oversight.

But the biggest drawback is the programme's limited scope. The 85,000 participants constitute barely one-sixth of Malaysia's 17-year-olds. Najib Tun Razak, who oversees the National Service as minister of defence, says the government cannot afford to increase the intake next year. A cheaper and more profound form of integration would come from unifying the school system, but that, he thinks, is politically impossible. The main thing Malaysians of different races have in common, it seems, is hostility to the government's attempts at integration.

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Democratic Republic of Congo

President Kabila goes east

Oct 21st 2004 | KINSHASA
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AFP

Congo's president kicks off the campaign for the first real election since 1960

Get article background

FIFTEEN months after the civil war ended, Congo's president finally plucked up the courage this week to visit Kisangani, one of the main towns in the east of the country. Joseph Kabila touted his trip as proof that the country was united and calm again under his leadership. He was greeted by roads lined with palm fronds and festive crowds chanting: “we are liberated.”

Congo's 50m or so people are a patriotic lot, and nowhere more so than in the “City of Martyrs”, which was ravaged and looted by Rwandan and Ugandan troops during the war of 1998-2003, as well as by their local proxies. Mr Kabila tapped into popular hopes by announcing that Congo would no longer tolerate foreign invaders. He also re-iterated a commitment to hold proper elections next year, for the first time since 1960. He even promised to pay civil servants, who have not received their salaries for years.

The euphoria may be premature. Despite a power-sharing deal between government and rebels last year, the country is still divided. The army controls the west; various former rebel groups the east. Clashes still erupt. A southern town called Kilwa, for example, has changed hands twice in recent days.

Mr Kabila knows all this. He took the precaution, before going walkabout in Kisangani, of having his presidential guard disarm all the former rebels there, though they are supposed to have been integrated into the national army. Mr Kabila's guards then moved them to camps outside town.

The president's visit may not quite have signalled the end of hostilities, but it did mark the beginning of his electoral campaign. Around half the population lives in the east, and the 33-year-old president, who took power when his father and predecessor was assassinated in 2001, is determined to woo them.

If a presidential election is held, Mr Kabila will probably win it. His civilian opponents are fractious and penniless, while the former rebel bosses in his government, though rich, are hated by many.

One of them, Vice-President Jean-Pierre Bemba, whose rebel army was originally armed by Uganda, is being harried by the International Criminal Court, which is investigating allegations that his soldiers raped and killed hundreds of people in the north-eastern region of Ituri in 2003, and ate some to scare the rest. Mr Bemba denies the allegations.

The other ex-rebel vice-president is even less popular. Azarias Ruberwa's Rally for Congolese Democracy (RCD) once fronted for a Rwandan invasion of Congo, and periodically threatens to take the country back to war. In local and parliamentary elections promised next year, most RCD office-holders are likely to lose their jobs. The worry is that this might tempt them to take up arms again.

The key to successful polls—and to putting down any future insurrection—would be to unify, train and equip the Congolese army. So said Karel de Gucht, the Belgian foreign minister, who visited Congo last week. But after meeting with Mr Kabila and other Congolese leaders, Mr de Gucht sounded gloomy. He reported little progress, and few people in government willing or able to achieve it. As if to echo his grumble, a scandal broke this week about the grotesque salaries—as much as $25,000 a month—that the managers of Congo's state firms take home.

Such fat-cattery irritates ordinary Congolese, not only because they would be lucky to earn as much in 100 years, but also because the firms in question provide practically no services to the poor. Mr Kabila says that jobs at public companies should be awarded on merit. The ex-rebels in government say this would violate the power-sharing accords that ended the war.

None of this bodes well for the elections. By April, 40,000 polling stations must be set up, and 200,000 polling officers hired and trained. This will require a logistical miracle. The country is so vast and roadless that no one knows, to the nearest million, how many people died in the war, let alone how many potential voters live there now. Many Congolese would rather have clothes than a ballot paper.

The vote will be considered fairly successful if it does not spark ethnic massacres, as the last aborted attempt at local democracy did in 1993. In anticipation, the UN has sent another 5,900 peacekeepers to join the 10,800 already in Congo, and promised to press Mr Kabila to pass the necessary laws to let the vote take place. But many Congolese remain sceptical. A UN mission tried something similar four decades ago, but pulled out as the country collapsed into civil war.

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Zimbabwe

One freed, millions not

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Robert Mugabe generously refrains from putting his chief rival to death

AP

Tsvangirai celebrates

IT WAS a “victory for the people”, claimed the Movement for Democratic Change (MDC), Zimbabwe's main opposition party. Yes, but it was a rare one. Morgan Tsvangirai, its leader, was finally cleared of treason on October 15th. He did not plot, as prosecutors alleged, to have President Robert Mugabe assassinated in 2001. But it took the courts two years to rule on this obviously trumped-up charge, during which time Mr Tsvangirai has been unable to do his job properly, since he has been subject to restrictive bail conditions at home and banned from going abroad to publicise his cause. Oh, and he still faces another, even more ridiculous set of treason charges for having tried to organise protests last year.

This time, the state's case foundered because its main witness sounded, well, a bit unreliable. Ari Ben-Menashe, an Israeli-Canadian political lobbyist who admitted that the government had paid him handsomely for his services, played a crudely edited video of himself trying to prompt Mr Tsvangirai into saying something incriminating. That, more or less, was the prosecution's case. Mr Tsvangirai's lawyer, George Bizos, who once defended Nelson Mandela, called Mr Ben-Menashe a “fraudster, a clown and fantasist”.

After the acquittal, Mr Bizos sobbed with relief. His client talked of the need for reconciliation. The verdict probably suited everyone. Mr Tsvangirai wanted to avoid being hanged or thrown into Chikurubi jail in Harare, where violence, malnutrition, AIDS and the lack of potable water hurry prisoners to an early grave. Mr Mugabe can boast that his courts are independent, which they are not. Mr Mugabe gained in other ways. Jailing his rival would have made Mr Tsvangirai a martyr. It might even have spurred other African governments to complain.

Instead it is now back to business as usual, which suits Mr Mugabe nicely. The MDC continues to dither. After years of harassment, its members look less determined to take power than Mr Mugabe is to hang on to it. A general election is due in March 2005, but the MDC is unsure whether to contest it.

One faction says it should: its MPs can at least irritate the government; the MDC has about half the elected seats in parliament. The ruling party, ZANU-PF, has a majority, because Mr Mugabe appoints a fifth of the MPs. But the MDC can at least stop him changing the constitution.

Another faction argues that the election will be so unfair the MDC will lose even this small leverage, so it is not worth taking part. The MDC is barred from the airwaves, except as the butt of derision. Most of the independent press has had to close; most foreign monitors and journalists are banned. Mr Mugabe's courtiers run the electoral commission. A new law will ban many human-rights groups. And millions of people who would otherwise vote MDC have fled the country in search of jobs, food and freedom.

The ruling party's campaign is expected to focus on the idea that those who tick the wrong box will starve. Mr Mugabe's destruction of farming has left Zimbabwe perilously short of food. The election is due just before the harvest in April, when voters are hungriest. Foreign donors have been banned from handing out grain. Instead the government will distribute its own stocks of imported maize, but probably not to MDC supporters. On October 15th Amnesty International reported on preparations for “a strategy to manipulate people through fear of hunger”.

Some voters and activists are also being promised land: a fresh round of evictions got going last month as disaffected black peasant “settlers” were turfed off farms in northern Zimbabwe to make way for Mr Mugabe's more loyal supporters.

Is there any hope? Zimbabweans look to South Africa, their powerful neighbour, for help, but can expect none. President Thabo Mbeki has vowed to fly to Harare “every day” if that would help restart talks between Mr Mugabe and his persecuted rival. But Mr Mugabe is not interested, so Mr Mbeki mostly does nothing. South African monitors endorsed the past two blatantly rigged elections in Zimbabwe. They will probably endorse the next one, too.

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Tunisia

The supposed price of stability

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Might Tunisia's authoritarian regime foster the growth of radical opposition?

AFP

Tunisia's poster boy

FOR western leaders grimly accustomed to the months-long pummelling of presidential or parliamentary contests, it would be an enviable dream: a campaign lasting just a week or two, featuring no live debates or opinion polls, and pitting a heavyweight incumbent against three Ralph Nader-sized bantams. Better yet, the ruling party is allowed to do things like vet the others' platforms, choose the size of their election posters and tear them down if it does not like them. So Tunisia's president, Zine al-Abidine Ben Ali, is certain to win a fourth term by a landslide in an election due on October 24th.

It is a classic exercise in what the small North African republic's many cynical citizens like to call *La Boulitique*. Tunisia differs from some other dictatorships in the region, since its election game does allow for more than one player—and for referees, cheerleaders and spectators. But the field is as tilted as anywhere; for the puny opposition the goalposts are continually moving.

The sport also lacks suspense. Last time around, in 1999, Mr Ben Ali won a mere 99.44% of votes cast. That was before his party, the Rassemblement Constitutionel Démocratique (RCD), changed the constitution to allow him to run for a fourth and, potentially, in 2009, fifth term. Considering that this party has led Tunisia since its independence from France in 1956, that more than half of the 4.5m electorate are party members, and that the RCD retains a stranglehold on the national legislature, on every town council in the country and on the boards of most trade unions, clubs, associations and so on, its opponents' morale is understandably low.

With the once-powerful Islamists banned since Mr Ben Ali, now 68, took power in 1987, all of the country's seven recognised opposition parties are, like the RCD, secular and progressive in outlook. Two of those that have fielded candidates admit that while their chances are nil, they hope at least to encourage democratic practices. By contrast, Muhammad Ali Halouani, another presidential contestant, declares he wants to break the RCD's control of institutions and promote broad political reforms. But Mr Halouani, an avuncular ex-communist, has failed to rally wide support for his Democratic Initiative. Three other opposition parties have preferred to boycott the polls, expressing a feeling, widespread among Tunisian intellectuals, that nothing can be gained from giving legitimacy to a flawed election.

Partly as a result, little of the festive bustle that might be expected in an election season is in evidence. Tunisians seem more interested in observing the rites of Ramadan and tuning their satellite dials to European football, French variety shows and the far more engaging dramas of Iraq, Palestine and the American elections. “The only question for me in our vote”, says a retired editor in Tunis, “is what number comes after the point, after the 99%.”

But there is another question that has long puzzled many Tunisians, which is why, in this quiet, mildly prosperous, relatively worldly country with a solid middle class, Mr Ben Ali's government feels the need to maintain such a panoply of control. Some 500 Islamists still languish in prison, more than a decade after their political movement was crushed. Dissidents are closely monitored, and frequently harassed by plain-clothed thugs, “tax inspections” and the like. Tunisia's tame media are blander than Baathist-ruled Syria's.

Most Tunisians agree that even without such pressures, Mr Ben Ali could win handily in any election. Tunisia has few natural resources, yet under his rule it has made steady social and economic headway. It has enviably high rates of home ownership, literacy and foreign investment. Since the 1980s, the proportion of Tunisia's 10m people falling below the official poverty line is said to have shrunk threefold, to only 4%. Despite grumbling about nepotism on high, Transparency International, a corruption watchdog, says this is a cleaner place in which to do business than Greece, Hungary and the Czech Republic, all members of the EU.

Most Tunisians probably agree that turgid politics and over-zealous policing are reasonable prices to pay for prosperity. While the middle class is broad, membership in it is still tenuous for many, given high unemployment and a large consumer debt. Aside from the country's historically pacific nature, salaried Tunisians are generally loth to rock the boat.

But the government's excuses for squelching dissent are starting to look thin. For many years, the turmoil in neighbouring Algeria made Tunisia's zero-tolerance policy against Islamists appear sound. The attack in 2002 by a local al-Qaeda affiliate against an ancient synagogue on the island of Jerba, which killed 14 German tourists and shook the 5m-visitor-a-year tourist industry, prompted a new crackdown. Foreign governments, keen to cultivate allies in the war on terror, abruptly toned down criticism of Tunisia's human-rights record.

Yet few Tunisians believe that Islamist radicalism is a serious, immediate danger. Mr Ben Ali's predecessor, Habib Bourguiba, enforced sweeping secularisation from the 1950s on, declaring himself engaged in a "*jihad* for progress". Despite a recent resurgence of religiosity among ordinary Tunisians, which some sociologists ascribe to the impact of Arab satellite television on an information-starved society, there is scant evidence of a turn to politicised Islam. What home-grown critics of the government fear is that the country's stifling political climate may, in the longer term, itself engender such a shift.

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Lebanon's prime minister resigns

A billionaire bows out

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For now, at least

RAFIK HARIRI is famous for getting the job done. Back when he was just a contractor in Saudi Arabia, he is said to have impressed impatient royal clients by wheeling in giant jet engines to blow-dry a concrete wall. Such ingenuity earned him a fortune of perhaps $4 billion, powerful friends, such as France's President Jacques Chirac, and the premiership of his own country, Lebanon. But this week he resigned, leaving unfinished the job of post-war reconstruction he started in 1992, and leaving behind a colossal national debt.

No one is writing Mr Hariri's political obituary, yet. He was ousted as prime minister in 1998, only to return two years later. And while it is true that his political capital has dwindled since the mid-1990s, when his can-do attitude inspired his then war-weary countrymen, the 59-year-old Mr Hariri still has plenty of cash, and those powerful friends.

His reasons for quitting are simple. Mr Hariri has long feuded with Lebanon's president, Emile Lahoud, whose mandate was due to expire last month. Mr Lahoud is backed by Syria, whose army squelched Lebanon's 1975-89 civil war, but has now overstayed its welcome. The UN Security Council has passed a resolution demanding Syrian withdrawal; Syria responded by fixing a constitutional change to extend Mr Lahoud's mandate, and by accusing the UN of “interference in internal affairs”.

This week, the council, led by Mr Hariri's friends, France and America, again chided Syria, giving it six months to leave. Mr Hariri felt forced to choose between staying on under Syrian tutelage or waiting in the wings to see if Syria could resist the pressure. Several of Mr Hariri's parliamentary allies, sensing a change in the tide, had already resigned in response to the extension of Mr Lahoud's term. One of them narrowly escaped assassination on October 1st.

This has all left Lebanon, whose fragile prosperity rests on a careful division of spoils among some 18 confessional groups, in a dangerous state of polarisation. With Mr Hariri gone, creditors whom he had personally charmed into keeping the country afloat may be tempted to call in their chips.

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Iraq

The trial of Saddam Hussein

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When and how will it take place?

AP

Objection, your honour

IYAD ALLAWI, Iraq's interim prime minister, has said he expects Saddam Hussein's trial to begin this month—or at least before the general election due in January. But American officials consider such a timetable a “remote” possibility, at best. They reckon there is little chance of formal charges being brought against Mr Hussein until next year, with a trial unlikely to begin for several months after that, perhaps not until 2006. Still, the countdown has begun, with the likelihood, if he is convicted, of a firing squad at the end of it.

The proceedings could be speeded up. The evidence against Mr Hussein seems overwhelming. By the lowest serious estimates, at least 280,000 Iraqis were killed during his 24 years in power. This month reporters were flown to see a mass grave near Hatra, in northern Iraq, which had contained the bodies of some 300 Kurdish women and children, shot at point-blank range; the corpses were exhumed for examination by American investigators.

Greg Kehoe, the chief American investigator in Iraq, who spent five years examining mass graves in Bosnia for an international criminal tribunal, said he had never seen anything like it. He understands the Iraqis' thirst for revenge but says that those now running the special tribunal set up last December to try Mr Hussein are determined to do everything in accordance with the highest standards of international justice. They must examine hundreds of crime sites, interview thousands of witnesses, read tons of documents.

“The whole process is very important for re-establishing the rule of law in Iraq,” he says. “The trials not only have to be fair, but also be seen to be fair. A rush to judgment would do nothing to restore the Iraqis' faith in the rule of law.” Mr Kehoe heads the “regime crimes liaison office” in Baghdad: a team of 75 lawyers, archaeologists, anthropologists, forensic experts and so forth, drawn from various nationalities (mostly Iraqi and American), set up by the Americans last spring to help and advise the independent Iraqi special tribunal manned entirely by Iraqi judges.

Some human-rights groups say an independent and impartial trial will be impossible. Mr Kehoe disagrees. He says he has no doubts about the quality and fairness of the 42 judges and examining magistrates appointed to the court. They knew the eyes of the world were upon them. Earlier this month they were secretly flown to London, under tight security, for eight days of training in international humanitarian law, the laws of war and other legal issues of which they knew little under Mr Hussein. International advisers to the tribunal are now being recruited.

Mr Hussein has been in the Americans' physical custody since they caught him in December. But his legal custody was transferred to the Iraqis on July 1st, a few days after Iraq's interim government took office. On the same day, Mr Hussein and 11 top Baathists appeared briefly in court to be advised of their legal rights and to hear the preliminary charges under investigation. Under Iraq's civil-law system, the next step will be their formal indictment, once sufficient evidence has been collected.

Mr Hussein, who had a hernia operation earlier this month, is now being held along with more than 80 other “high-level” detainees in Camp Cropper, part of an American military complex 16km (ten miles) from the centre of Baghdad. Though allowed out for exercise twice a day, he is barred from contact with

other prisoners. He spends most of his time tending plants and reading the Koran and books of past Arab glories. Under interrogation, he still insists he is Iraq's lawful leader—and has done no wrong. He refuses to recognise the authority of the court, though he has now appointed an Iraqi lawyer to defend him. It was hard to find one to do so.

Why Mr Allawi has insisted that Mr Hussein would be tried before the end of the year is unclear. Salem Chalabi, who was ousted as chief administrator of the special tribunal last month, has accused Mr Allawi of trying to manipulate the court and boost his popularity by holding show trials in the run-up to the election.

Iraq's government has restored the death penalty, briefly abolished by the Americans. Under Iraqi law, civilians convicted of capital crimes are hanged; army officers are shot. As a former head of Iraq's armed forces Mr Hussein may expect the latter fate—but probably not, despite Mr Allawi's wishes, for several years yet.

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Iran

The lethal lot of the poor

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A saga of murder that highlights the vulnerability of Iran's urban poorest

A YOUNG man develops a taste for raping and killing people, mostly small boys, and hiding their corpses in the wasteland of the open-air brick factories that he inhabits. The police are indifferent to the pleas of distraught parents, who are mostly rural migrants and Afghan refugees; by the time the murderer is brought to book, the death toll stands at 20. As an emblem of social decay and official ineptitude, this tale from the ribbon developments near Pakdasht, on Tehran's insalubrious southern fringe, takes some beating.

Embarrassed by the media's attention, the authorities are trying to make amends. Negligent policemen have been referred to the courts. A government report concedes that inquiries that "could have halted the murders" were not made. Last week, Muhammad Bijeh, the crimes' unrepentant perpetrator, was sentenced to hang. Iran's top policeman, Muhammad Baqer Ghalibaf, pledges to absorb the appropriate lessons.

The learning curve will be steep. "Going missing is not a crime," is how the (now-sacked) local police chief justified his apparent indifference to the spate of disappearances. After his ten-year-old son failed to return home last winter, says Ghollam-Reza Amini, no fewer than three local police stations disclaimed jurisdiction over the area where the boy had been playing. A few weeks—and two murders—later, Mr Bijeh was arrested. He was subsequently freed, and committed seven more murders.

"We are poor illiterates," says one of Mr Amini's neighbours, trying to explain the official unconcern. "No one cares about us." Mr Ghalibaf was at pains to correct this impression when he visited Pakdasht recently; he lavished praise on the 450 local boys who went to their deaths in the Iran-Iraq war of the 1980s, and gave warning against "imagining that there can be security in a society that does not possess the minimum needed for living."

The semi-slums around Pakdasht are such a society, and Mr Bijeh's charge sheet records the human consequences of Iran's two-decade-long wave of rural-urban migration. His accomplice, who was sentenced to 15 years in prison, is a drug addict, as was one of the adult victims. The only woman killed by Mr Bijeh seems to have been a prostitute. Another victim was a child labourer. Child or adult, Iranian or Afghan, all were poor.

All in all, Pakdasht people are sceptical of the concern Mr Ghalibaf expressed for the downtrodden during his visit. The Islamic Republic was founded on concern for the poor and economically exploited, and it is they, in Pakdasht at least, who feel most let down.

Pakdasht's Afghans feel especially aggrieved. Though neither defendant was Afghan, Mr Ghalibaf has pointedly lamented the presence in Iran of "uncontrolled numbers of foreign citizens". His sentiments were presumably shared by the duty officer to whom one Afghan reported his son's disappearance. "Well, that's one less of you," the officer is said to have replied. "Now, get out."

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French foreign policy

Diplomacy à la française

Oct 21st 2004 | JERUSALEM AND PARIS
From The Economist print edition

France struggles to make sense of a challenging world

Get article background

UNDER a scorching sun, he shovelled earth on to the roots of an olive tree, planted in memory of 80,000 French Jews deported to their deaths in concentration camps. He listened patiently as Israelis urged France to be less critical of Israel, and more vigilant against anti-Semitism. “Nothing, nothing will excuse it,” he declared.

Michel Barnier, France's foreign minister, was in Israel this week trying to repair a troubled relationship with the Jewish state. But his visit, including an awkward meeting with Ariel Sharon—the first between the Israeli prime minister and anybody from the present French government—comes at a difficult time. The meeting with Mr Sharon, said one French official, was no better than “businesslike”. That wasn't surprising: Mr Barnier urged him to talk to Yasser Arafat, the Palestinian leader, whom he visited in June, thereby enraging Israel. Mr Sharon, equally unsurprisingly, dismissed the notion out of hand. France is not seen as an honest broker, and is therefore disregarded.

These are testing times for France's foreign policy, and not just in the Middle East. In some ways, the French have grounds for satisfaction. President Jacques Chirac's government feels vindicated over the war in Iraq. The absence of stocks of weapons of mass destruction, British and American admissions that they made mistakes, disorder in Iraq: all confirm to the French that they were right all along. Furthermore, with a new government in Spain and second thoughts even in Poland, fellow Europeans are edging France's way too.

If Mr Chirac is unpopular at home, it is not because of his diplomacy. Whereas only 36% of the French approve of him generally, fully 76% like his foreign policy. If anything, French opinion on Iraq is more uniform than ever. One by one, the voices who backed the invasion have begun to retreat. “I was wrong to support the Iraq war,” wrote Dominique Moïsi, of the French Institute of International Relations, a formerly outspoken advocate of it, in the *International Herald Tribune*. The absence of debate—in newspapers, conferences, or diplomatic circles—is striking.

All the same, French diplomacy is under strain, in three main areas. The first is its inability to secure the release of two French journalists taken hostage in Iraq in late August. In the days after their capture, Mr Barnier sped off to the Middle East to rally support and remind the Muslim world of France's opposition to America's invasion of Iraq. Islamic leaders, at home and abroad, called for the captives' release. To no avail: after false leads, and the fiasco of a failed unilateral visit by a French parliamentarian, the two hostages have still not been set free.

This failure has not only shaken France. It has also prompted questions about the value of the country's traditionally pro-Arab stance. “The failure of French diplomacy” over the hostages, wrote Ivan Rioufol, in *Le Figaro*, “shows the limits of a pro-Arab policy that is too empathetic, indulgent, manipulable.” France is beginning to recognise that, if it is to count in the Middle East, it cannot shuttle only between Ramallah and Damascus.

The second source of unease is the prospect of Turkey's entry into the European Union, which has provoked fierce hostility in France. Some three-quarters of the French are against, according to a Louis Harris poll. Mr Chirac's party, the Union for a Popular Movement, is opposed; and his prime minister, Jean-Pierre Raffarin, has expressed doubts. Almost alone, Mr Chirac and Mr Barnier are in favour—though the president stresses it is a long-term issue, and promises to consult the French in a referendum.

Turkey touched such a raw nerve not just because it is big, poor and Muslim. It also taps into deeper French concerns about what sort of Europe is being built, and how much influence France has. Expansion of the EU has been painful for a country used to steering the project in tandem with Germany. The dilution of power in an EU of 25 has been coupled with symbolic defeats. France failed, along with Germany, to secure its preferred nominee as commission president. The French were then snubbed when their own commissioner, Jacques Barrot, was handed the lowly transport portfolio.

Above all, there is a fear that the French vision of a politically integrated, socially minded Europe is being swept away by an Anglo-Saxon model of loosely linked countries in a liberal market, dominated by English. This is why Laurent Fabius, a former Socialist prime minister, has called for his party to reject the draft EU constitution in next year's referendum. Where once Europe comforted France, it is increasingly seen as a threat. “Europe has been a way to project ourselves, to control our destiny,” comments one French diplomat. “Now, it's become something we cannot control, and that is uncomfortable.”

The third source of concern is relations with America, battered over Iraq. It is no secret that the French are hoping for a victory by John Kerry, though they are careful not to tarnish him with any public endorsement. Polls show that some 72% of the French want him to win. Given today's lack of trust between France and America, a Kerry victory would certainly improve the tone. Yet it is still out of the question for France to send soldiers to Iraq. Even under a President Kerry? “Never,” replies Mr Barnier firmly. To avoid any such disappointment chilling future relations, the French have been trying to puncture hopes in the Kerry camp. Better relations with America, stresses Mr Barnier, should not depend on being in agreement. “Alliance,” he says, “but not allegiance.”

Why has France ruled out even the possibility of troops in Iraq? Part of the answer is that, despite a shared interest in the region's security, it considers this to be America's war, which it opposed from the start, and is thus not responsible for resolving. There is also surely a desire not to boost Mr Bush's electoral chances. But even if the political will existed, it would be near impossible for Mr Chirac to persuade the French that it was in their interests to put their soldiers' lives at risk.

Perhaps most important of all, the French consider that resolution of the Israeli-Palestinian conflict is key to the region's stability—and that the Americans have given up on it. The French know they cannot do much, even as Europeans, alone. In Israel this week, Mr Barnier called on America to get involved again. “Let's work together in the coming months,” he urged. If the French are hinting at the possibility of a rapprochement with America, under whichever president, this is surely one precondition.

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The European Commission

An Italian opera buffa

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The row over Rocco Buttiglione's nomination to be the European Commissioner for justice and home affairs continues

EPA

Buttiglione hears a message

AFTER learning that he had been named as Italy's next commissioner in Brussels, Rocco Buttiglione was quoted as saying: “I may be a nobody in Italy. But in Europe I will be someone.” Prophetic—if not in the way he envisaged. A soft-spoken academic with a gracious manner and an engagingly toothy smile, Mr Buttiglione is scarcely the stuff of which scandals are made. Yet, for the past two weeks, he has been at the centre of a storm in Brussels.

On October 11th, he became the first commission nominee to be rejected by a European Parliament committee, when the civil-liberties committee voted 27-26 to reject his nomination to the justice and home affairs portfolio. The majority's ire was roused by his comment, in response to the committee's questions, that “I may think homosexuality is a sin, but this has no effect on politics unless I say homosexuality is a crime.”

The vote prompted many in Italy, not just on the right, to note that Mr Buttiglione was merely echoing papal orthodoxy. As one cardinal deplored a “lay inquisition”, Catholic commentators asked if believers could any longer aspire to high European office. They have a point. A gulf has opened between mainstream European thought on a range of social issues and the unyielding Catholicism of Pope John Paul.

Yet when Mr Buttiglione protests that he is being persecuted for his thoughts not his actions, he is being disingenuous. He is a lifelong member of a conservative organisation, Communion and Liberation, that is known for seeking to bring religious values into political life. After being made Europe minister in 2001, Mr Buttiglione astonished colleagues with a string of demands that went far beyond his remit. Within days, he had called for a ban on artificial insemination, for state funding for private schools and for payments to women who rejected abortions.

As *The Economist* went to press, the incoming commission president, José Manuel Barroso, appeared to be mulling a compromise that would strip Mr Buttiglione of responsibility for anti-discrimination policies. But this may not be enough. The Socialist leader in the parliament, Martin Schulz, said he wanted a “complete change in portfolio for Mr Buttiglione” as the price for not voting down Mr Barroso's entire team. His stance followed a report this week in Britain's *Daily Telegraph* that the commissioner-designate had been under investigation in Monaco on suspicion of money-laundering. A magistrate in Monte Carlo was quoted as saying that Mr Buttiglione had been suspected of involvement in a plot to funnel cash illegally to his party, the Christian Democrat Union of Centre Democrats (UDC), though the case was later dropped.

However, neither his Catholicism nor any alleged investigation is the best argument for questioning Mr Barroso's wisdom in earmarking the justice brief for a politician with Mr Buttiglione's friends and record. For the past four years, Mr Buttiglione's right-hand man, the head of his ministerial secretariat, has been Giampiero Catone. In May 2001, just before the election that brought Silvio Berlusconi to power, Mr Catone was arrested and jailed, accused of fraudulently obtaining government subsidies for companies he owns. He has since been charged, but not yet tried. Mr Catone says he is the victim of a “campaign of defamation”.

He is not the only senior UDC official under judicial scrutiny. The party's stronghold is Sicily. It played a

leading role in helping the Berlusconi alliance take all the seats on the island in the 2001 general election. The UDC governor of Sicily, Salvatore Cuffaro, was last month charged with aiding and abetting the Mafia. He too denies all charges against him.

All of these accusations may indeed prove unfounded. But, even then, there remains perhaps the most disturbing issue of all: Mr Buttiglione's complicity in measures taken by the Italian government to enable its leader to stay one step ahead of efforts by prosecutors to have him convicted and jailed. Over the past three years the proposed future justice commissioner has sat in a cabinet that has partly decriminalised false accounting for private companies, and tried both to provide Mr Berlusconi with immunity from prosecution and to make it harder for courts to use evidence obtained abroad. In short, Mr Buttiglione's Catholicism is not the real reason for doubting whether he is the right man for the justice portfolio.

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Spain's opposition

Unpopular party

Oct 21st 2004 | MADRID
From The Economist print edition

Mariano Rajoy finds it hard to regain support for the People's Party

AFP

Aznar's unlucky legatee

THE legacy that Spain's former prime minister, José María Aznar, hoped to leave behind when he stepped down was a strong and united People's Party (PP), still in government. The terrorist attacks on Madrid trains that killed 191 people on March 11th, three days before the election, compounded by Mr Aznar's crude attempt to blame the Basque terrorist group, ETA, put an end to that. The centre-right PP was voted out. Worse, it has since been riven by in-fighting.

The party has struggled to deal both with its loss of power and with the inscrutable style of its new leader, Mariano Rajoy. The wrought-iron party discipline forged by Mr Aznar has corroded. In Galicia the 81-year-old former Franco-era minister and PP founder, Manuel Fraga, has had to face down a rebellion by party factions in Orense. More trouble came when seven regional MPs were expelled from the party in Guadalajara for criticising the new party leadership. Squabbles have broken out in Valencia, Castile La Mancha, Aragón, Asturias and even in the Moroccan enclave of Ceuta.

The PP's gloomy fortunes and its low poll ratings stand in marked contrast to those of the new government. So far, six months under the Socialist prime minister, José Luis Rodríguez Zapatero, have been about warm mood music and “good feeling”. Most Spaniards approve strongly both of Mr Zapatero's withdrawal of Spanish troops from Iraq and of his raft of social reforms. Only recently have some concerns begun to surface in the party about the government's anti-Americanism, its over-zealous promises to stop a shipyard closure and its failure to respond to Spain's housing shortage.

A recent poll in *El Mundo* gave the Socialists a lead of almost seven points over the PP, almost two more points than it achieved in the elections. Over half of Spaniards have a very good or good opinion of Mr Zapatero; less than 15% see his government negatively. In contrast, a poll in *El País* at the end of September said that only 36% of Spaniards, and only just over half of the PP's own voters, consider Mr Rajoy to be the best man to lead the party. Madrid's mayor, Alberto Ruiz-Gallardón, and Rodrigo Rato, now head of the IMF, were both more popular choices.

Mr Aznar's great achievement was to unite the Spanish right and cast off its historic Francoist mantle. His undoing was caused, in part, by his arrogance. At the party's annual conference at the beginning of October Mr Ruiz-Gallardón conceded this, saying “we should recognise it, we must have done something wrong.” The mishandling of the *Prestige* oil spill, the support for the war in Iraq, the media manipulation which included ignoring a national one-day strike as well as being seen to lie about the Madrid bombings were all doubtless in his mind.

Spain is a predominantly left-of-centre country, and Mr Rajoy has yet to find a formula to unlock more support from the centre. He has, however, toned down the harsh rhetoric of Mr Aznar. One gesture to modernise the PP was to strike the word “Christian” from its statutes, but this was met with howls by Roman Catholics. All the same, Mr Rajoy's more-to-life-than-politics approach (smoking cigars, watching sport) is slowly winning support.

Yet just after the party conference, Mr Ruiz-Gallardón put up his deputy, Manuel Cobo, to run against Madrid's regional premier, Esperanza Aguirre, for Madrid's party presidency. He was slapped down by the party leadership, leaving Mr Cobo to resign and lament the “Taliban policies” and “moral lynching” of the

PP. Mr Rajoy has much to do to complete the process of consolidation—let alone regain power.

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Polish politics

Another week, another scandal

Oct 21st 2004 | WARSAW
From The Economist print edition

A new and murky tale of intrigue in Poland

POLAND has only just got over one big political scandal, triggered when a well-known film producer called Lew Rywin allegedly offered to get a media-ownership law amended in exchange for a large payment to his friends in power. A parliamentary inquiry helped to bring down the government of the day, led by Leszek Miller, who resigned as prime minister in May.

Now another parliamentary commission is digging into an even juicier-sounding tale. This one mixes oil, a Russian spy and another multi-million dollar bribe. Much is still hearsay, but the story goes that Poland's richest businessman, Jan Kulczyk, a private investor in a partly state-owned oil company, PKN Orlen, had a meeting in Vienna last year with a reputed Russian spy named Vladimir Alganov. At the meeting, Mr Alganov said a Russian oil company had paid a $5m bribe to a Polish minister and a Polish industrialist (not Mr Kulczyk) to ensure that the Russians would win the tender for a soon-to-be-privatised Polish oil refinery. The bribe was taken, according to Mr Alganov, but the refinery was still not sold—and the Russians were getting upset.

Opposition parties want to steer this affair in the direction of Aleksander Kwasniewski, Poland's Socialist president, by linking him to Mr Kulczyk. The inquiry is said to hold a note from a Polish intelligence officer who spoke to associates of Mr Alganov after his meeting with Mr Kulczyk. According to this note, Mr Alganov said that Mr Kulczyk portrayed himself as able to lobby Mr Kwasniewski and get the Russians their deal.

Mr Alganov, a presumed KGB agent in Warsaw from 1981 to 1992, featured in another political scandal a few years later. He now works for the Russian electricity monopoly, UES. Mr Kulczyk admitted last week that he had met Mr Alganov, but claimed the meeting had been set up with UES and that he did not know Mr Alganov would be present. He denied offering to intervene with Mr Kwasniewski over the oil-refinery privatisation, calling the idea “laughable”.

The scandal may yet prove a Russian invention. If so, it has not been thought through, since one effect of it will be to make the Poles even warier of Russian attempts to invest in their oil industry. Mr Kwasniewski could also be hurt if any mud sticks to him, however unfairly. His presidency ends next year. He has long been seen as the only man who might revive the Socialist Party, after its near collapse under Mr Miller (the current Socialist prime minister, Marek Belka, is more of a caretaker for the party). But for that, Mr Kwasniewski would need to return to politics with his moral authority intact. His opponents hope to deny him that chance.

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Germany's past

Memory monopoly

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When historical sensitivities clash with commercialism

AFP

COMMEMORATING the Nazi past is still difficult for Germany—witness the controversy over Berlin's Holocaust memorial, which will be unveiled next May. But dealing with the more recent history of East Germany seems hardly easier, at least when it comes to edifices from the period. No fewer than three are now causing a fuss. At the core of each argument is how far private initiative should go in places weighed down with history.

In Hoheneck castle in the city of Stollberg (Saxony), the storm is easy to grasp. This summer, an enterprising western German, who had bought the castle in 2003, started offering tours through the vast building, once East Germany's biggest women's prison. He even marketed it as a hotel, offering a "weekend in jail" for €100 ($125). Only after protests by former inmates, some of whom had spent days at a time in a pitch-dark chamber, filled with water and known as the "submarine", did he put an end to his jailhouse tourism.

The row over the Palast der Republik, which once housed East Germany's rubber-stamp parliament, is more complex. Last year, Germany's Bundestag decided to tear down this huge building in central Berlin, not least because its asbestos-contaminated interior had been stripped, leaving a skeleton of steel beams. Yet this turned it into a cool place for events. The German Industry Association held its annual conference there. The building is being used for a privately organised series of concerts and avant-garde art projects, one of which involved flooding the basement to create a sort of Venice. Conservatives want this "misuse" to stop, but others would like it to continue until the place is demolished, in mid-2005 at the earliest.

And then there is the Wall. After it fell on November 9th 1989, it was quickly and methodically torn down. Today, only a few stretches are left in Berlin, including one at a Wall documentation centre. But at Checkpoint Charlie, the legendary interface between capitalism and communism, nothing is left. Which is why Alexandra Hildebrandt, owner of a private history museum, has rebuilt a 200-metre section on two vacant lots, as a supposed "monument to peace". Yet this initiative has political leaders in a tizzy, talking angrily of "commercialising memory".

In all three cases, the government is likely soon to reassert control. Hoheneck castle will one day include an official memorial. Checkpoint Charlie will doubtless become part of a *Gesamtkonzept*, an overarching concept of commemoration of which German officials are particularly fond. Such nationalisation seems inevitable; after all, commemoration is by definition a collective endeavour. But if the government steps in too early or too heavy-handedly, imaginative ideas for remembering the past—and making it relevant to the present—could be lost.

For instance, the official plan is to rebuild the Stadtschloss, the baroque castle that long towered over Berlin, on the spot where the communists tore it down to build the Palast der Republik. But why not, instead, get graffiti artists to spray-paint the skeleton, demonstrating to the world that Berlin and Germany have, after unification, become more hip than many seem now to believe?

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Russian police

The mystery of submariner Pumane

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An everyday Russian story of counter-terrorism and conspiracy theories

IT MIGHT have been a case of terrorism vanquished and professionalism triumphant. In the small hours of September 18th, policemen spotted Alexander Pumane behaving suspiciously in a smart Moscow district. In his car were two explosive mines and some TNT. At the 83rd police precinct, Mr Pumane reportedly confessed to taking $1,000 for leaving the car on Kutuzovsky Prospect, a road often used by President Vladimir Putin. The tale has turned into a parable of rivalries and opacity in Russia's government, and concomitant conspiracy theories. “This case”, says Vladimir Ryzhkov, an independent Duma deputy, “is a mirror for the situation in Russia”.

Even the simplest version of events is hardly reassuring. Mr Pumane was interrogated by a scrum of officers from various security services. One was Vyacheslav Dushenko, who allegedly had links both to the “werewolves”, a gang of corrupt policemen that was broken up last year, and to Caucasian criminals. He is said to have taken Mr Pumane to the basement, vowing to make him talk. At first, the cause of Mr Pumane's death soon afterwards was said to be a heart attack, despite multiple contusions on the corpse. It is now thought to have been a brain haemorrhage.

Just another story of police brutality? More sinister interpretations have emerged. Perhaps Mr Pumane knew too much about security-service collusion with terrorists. A variant of this theory has him as a disposable stooge in a plot to bump off Mr Putin. Or maybe Mr Pumane, a former submarine officer, was not the sort of terrorist the authorities wanted to see in court. Early efforts to link him to Chechen terrorists have foundered. He may have been just a disaffected loner with a grudge.

All this, however, assumes that the body in the morgue is Mr Pumane's. Friends who have seen it, and his ex-wife, say it isn't. There are whispers that he was healthy when he boarded an ambulance at the 83rd precinct, and that he has been hidden under a witness-protection scheme. Maybe there was never a bomb plot; Mr Pumane, who is said to have worked for Interpol, the FSB security service, or both, may have been enlisted in a fake bust to burnish the authorities' image, or a staged assassination attempt disturbed by bumbling cops. A corpse is easy to procure—or produce—in Moscow.

Typically, mutual recrimination and self-exoneration look like preventing the truth ever emerging. The police, prosecutors and the Duma are all running investigations; but, says Mr Ryzhkov, so far “we know nothing about this case”. Mr Dushenko has vanished. The identity of the corpse may be established from dental records and a genetic test. But the real story of submariner Pumane's disappearance is likely to remain a mystery.

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Charlemagne

A rigged dialogue with society

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How independent are the civil-society organisations beloved by the European Commission?

THE European Commission knows it has an image problem. To try to fix things, it is creating the new post of commissioner in charge of communications. Margot Wallstrom, previously responsible for the environment, promises that one of her first actions in office will be to hold “brainstorming sessions” with “civil society”. Talking to non-governmental organisations (NGOs) that purport to represent civil society is a proxy for the commission's talking to ordinary Europeans. But there is something odd about this dialogue. Many of the NGOs that Brussels likes to consult are directly financed by the commission itself.

Take the “dialogue with civil society” that took place during the Convention on the Future of Europe, which last year produced a new draft constitution for the European Union. Sensitive to the charge that it was dominated by Europe's political elite, the convention set up civil-society contact groups, allowing NGOs to air their views. Giuliano Amato, one of the convention's vice-presidents, stressed the importance of “the support of civil society in legitimising the final outcome of the convention's work”.

Happily, civil society seemed supportive of the idea of expanding EU power. The working group on citizens and institutions called for “the government of the Union to be in the hands of the commission, which alone was capable of representing the common interests of its citizens.” Five NGOs on this working group were invited to deliver this message directly to the convention. But all five—the Young European Federalists, the Federalist Voice, the Active Citizenship Network, the European Network Against Racism and the Polish NGO Office in Brussels—are financed, directly or through EU-funded members, by the commission itself. It is hardly surprising that they are eager for their paymasters to become the government of the Union.

The amounts of money involved are large. The Young European Federalists, which styles itself an autonomous youth organisation campaigning for “the creation of a European federation”, has received €466,000 ($560,000) from the commission since 2000, accounting for at least 50% of its funding. And this is just one of hundreds of NGOs funded by the commission. Romano Prodi, the commission's outgoing president, boasted in a discussion paper in 2000 that “over €1,000m a year is allocated to NGO projects directly by the commission”. Most of this money goes to organisations that are not directly political: over €400m was allocated to humanitarian aid for example. But Mr Prodi also reckoned that €50m went to educational NGOs and €70m to social NGOs.

Some of the organisations financed by the EU directly promote political messages congenial to the commission. Indeed, some are assisted precisely so as to influence the political debate in Europe at critical moments. Just as Poland was completing its negotiations to join the EU, and preparing for a referendum on whether to join, the commission devoted millions of euros to pro-European initiatives in Poland. The commission influences the climate of debate more generally, by subsidising many of the think-tanks studying the EU, and by promoting the introduction of European integration studies in universities across Europe. Its Jean Monnet project has enabled European universities to set up over 2,000 teaching projects since 1990, as well as funding over 400 Jean Monnet chairs.

NGOs dealing with social issues are also big recipients of EU cash. Scores of such organisations, campaigning on issues ranging from conservation to corporate social responsibility, have been set up in Brussels. The commission finances many of them partly because they are convenient interlocutors for the various policymaking directorates. Suppose the environment or social-affairs directorates are thinking of issuing new directives and want to be seen to take account of the views of European citizens. What could be easier than picking up the phone and arranging a meeting with the local (commission-funded) NGO?

When is an NGO a GO?

Simon Wilson, director of the Platform of European Social NGOs, points out that the commission is hardly unusual in supporting NGOs. Most western governments and many international organisations do the same thing. The World Bank, for example, has made a huge effort to step up its contacts with NGOs. Mr Wilson argues that it is in governments' interest to foster such links, since they can then tap into a wide range of expertise and experience. His own organisation received €369,383 from the commission in 2003-04, some 90% of its budget. But Mr Wilson denies that this compromises its independence. “On some occasions we broadly support the commission's line”, he says, “but on many others we oppose it.” He cites two examples: the Social Platform's campaign for new anti-discrimination legislation, and its effort to insert a clause in the draft EU constitution, making consultation with civil society a legal obligation.

This last (successful) campaign was, perhaps, a tad self-interested. But campaigning on their own behalf is a big occupation of these groups. Look at the websites of EU-funded NGOs and it becomes clear that one of their favoured activities is to lobby for even more EU money. Thus the European Network against Racism (80-90% commission-funded) complains truculently that “the present budget line for anti-racist activities is...insufficient. The network...needs to put pressure on the European institutions with a view to increase this amount.”

The spectacle of organisations that receive EU money using their money to campaign for more EU money is only one example of this looking-glass world. It is a world in which so-called NGOs are actually dependent on government for cash; and one in which the European Commission, itself directly financed by Europe's national governments, finances “autonomous” organisations that campaign for more power and money to be handed to the commission itself.

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Education

Exam pass

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The government is trying to reconcile its egalitarian belief that all should have prizes with the requirements of a meritocracy

“DEVISE, in your own words, a system for educating English teenagers that stretches the brightest without discouraging the dimmest. It must be rigorous but flexible, broad but deep, and suit employers, universities, pupils, teachers and parents, as well as the politicians who will mark your answer. Write neatly.”

That, broadly, was the daunting task facing Mike Tomlinson, a former chief schools inspector, who this week published his proposals for reforming secondary-school education in England (Wales and Scotland are different). The current system is based on the GCSE exam, which is normally taken at 16 and A-levels, taken in two stages at 17 and 18.

The system certainly needs improving, but the government's aims are hard to reconcile. Too many people—around a quarter—drop out of education at 16: Britain is one of the worst rich countries on that score, and it is the poor that suffer. But being softer on the low-achievers conflicts with another goal—satisfying employers who complain that school leavers' literacy and numeracy are inadequate: only 42% of GCSE candidates gain at least a C in both English and maths.

Another beef is that vocational qualifications are confusing and poorly regarded—but one reason for that is endless meddling with the system. Now there will be yet more.

Differentiating the brightest is hard: this year 22.4% of A-level entries achieved an A grade. But making the exams tougher will penalise pupils at bad schools and help the independent schools that the government has it in for. The system is too burdensome: ten GCSEs and three A-levels can mean 40 exam papers. But that provides lots of data that universities and employers say they like.

Mr Tomlinson's proposed reform is based on a new four-tiered diploma, which almost all pupils should be able to complete at some level. For the middle and upper tier, basic maths, English and computing will be compulsory. That should please employers, because it will create an incentive to persevere with subjects that are dropped by those who find them difficult. The top-tier diploma will be broadly similar to A-levels, in that pupils will pick a handful of subjects to study in depth. But there will also be an extended essay or similar project, and two new grades of A+ and A++ to help the brightest candidates stand out. For GCSEs teachers will do more marking, and external examiners less.

Will it work? Creating an exam-lite system based largely on teachers' assessments will be a huge and costly task. Examining is outsourced now because marking scripts is difficult, and best done by experts.

The report suggests that pupils take exams when they want to, rather than with their age-group. That's a nice idea. But even private schools, which have the most money and best teachers, find it hard to accommodate those who want to take exams a lot earlier than their peers. And even if a bright 13-year-old and a dim 18-year-old are studying the same thing, it may be a bad idea to teach them side by side.

Another proposal is workplace experience for the non-academic. Employers are very dubious about that. The sort of teenagers that schools don't want to teach are not necessarily those you want wandering around your factory. Red tape means that firms who play host to minors face legal and insurance problems.

With enough time and money, all that could be solved. But there are other, deeper problems. It is hard to see the system being both tougher and more appealing: making difficult subjects like maths

compulsory may encourage a few borderline students not to give them up. But others may decide that it is better to drop out of school as soon as possible. Adding new grades at A-level won't stop grades being devalued: better to encourage the use of a separate exam. Raising esteem for vocational qualifications is a fine idea—but esteem comes from the esteemers, and usually is attracted by an old and solid system, not a new complicated one.

The biggest difficulty is that the proposed new diploma conflates quality and quantity. Accumulating lots of passes in easy and peripheral subjects is not the same as gaining a handful of stellar grades in hard ones. The government quickly signalled that it wants to keep A-levels and GCSEs for now, whatever other tweaks it ends up endorsing from Mr Tomlinson's ingenious but flawed piece of work. In the end, meritocracy counts for more.

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War in Iraq

Into the triangle

Oct 21st 2004
From The Economist print edition

British troops face fiercer fights in Iraq

THE British death-toll in Iraq has been mercifully modest so far, but that may soon change. On October 21st, Geoff Hoon, the defence secretary, announced in Parliament that 850 British troops and support personnel currently based near Basra would move to three unfriendlier towns along the southern base of the Sunni triangle.

The redeployment will answer an American call for help, and will be temporary. Mr Hoon said it would last “weeks rather than months”. Its aim is to free US marines for an attack on Fallujah, the centre of Iraq's insurgency, next month. This did not reassure opponents of the war, including many within the Labour Party (see article) who suspect that the redeployment is motivated by political, not military considerations.

If Iraq is to hold elections in January, as planned, Fallujah and other insurgent-held towns must be brought under control. And if America's over-stretched army is to control them, it will need back-up which only Britain is able and willing to provide. In response to allegations that the expected redeployment is a ruse to improve George Bush's prospects of re-election next month, Mr Blair had a good answer. It had nothing to do with America's election, he said, and everything to do with Iraq's.

It will be interesting to see how British troops fare further north. There is a lingering, and mostly erroneous, view that British soldiers are enjoying a soft war in Basra—possibly the consequence of Baghdad being so dangerous that journalists dare not venture out. In August, British troops in Amarah, a town north of Basra, fired some 30,000 rounds at Shia militiamen in the space of ten days. Yet the towns of Iskandariyah, Latifiyah and Mahmudiyah, 30-45 km (19-28 miles) south of Baghdad, are even more forbidding. Lining the southern road to Fallujah, an important supply-route for the insurgents, the towns are patrolled but not controlled by American marines. Among the many violent crimes common in the area, kidnapping is a speciality.

The standard view of British soldiers as smiley peacekeepers compared with America's trigger-happy killers is too simplistic—as the expenditure of bullets in Amarah suggests. But it is true that British soldiers are better at building trust with locals, and are slower to shoot at suspected enemies and more careful to kill them when they do.

This is not because they are better disciplined than the Americans, but because their training is different. Where British troops aim to expend no more bullets than is necessary, American troops, confident in their logistical support, aim to vaporise their foe in a storm of fire. Against many determined assailants—if not in a thronging market place—the American way may sometimes be best.

But while the British troops learn new tricks and teach old ones in the Sunni triangle, they will leave a gap behind. The force likely to be redeployed, mainly armoured infantrymen from the Black Watch regiment, is on standby to fight fires in the south. A similarly-sized infantry troop based in Cyprus will replace them, though they will not be bringing their tanks.

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Foreign Office

Our former man in Uzbekistan

Oct 21st 2004
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Allegations of creeping politicisation in the Foreign Office

“THE thing that worries me most”, said Craig Murray on learning that he was being ousted as Britain's man in Tashkent, “is that there is an increasing atmosphere inside the Foreign Office since September 11th where people feel unable to express dissent, particularly with a liberal viewpoint. I am worried that this could politicise the civil service.”

The view of a disgruntled diplomat whose flamboyant lifestyle in Uzbekistan has become an increasing embarrassment for the Foreign Office? That's how the government would like his comments to be seen. But its inept handling of Mr Murray's dismissal has elicited support for his allegations from within Britain's normally ultra-restrained and supposedly politically neutral diplomatic service.

In August last year, after increasingly outspoken criticism of the horrendous human-rights abuses in Uzbekistan, one of America's key allies in the war on terror, Mr Murray was summoned to London, charged with 18 disciplinary offences, and (he says) asked to resign. He refused, and subsequently accused the Foreign Office of using information obtained under torture in Uzbekistan. All the charges against him, ranging from drunkenness to selling visas for sex, have since been dropped. Now suspended for “gross misconduct” after airing his grievances in the press, he says he plans to sue the Foreign Office for damage to his health.

As civil servants, ambassadors are supposed to carry out government policy. If they disagree, they have two options: to shut up or get out. On this, few diplomats, other than Mr Murray, would disagree. But many are alarmed at the way Downing Street seems to have taken over foreign policy, particularly since September 11th. Expert advice is no longer listened to, they say. Dissent is stifled by “toadying officials”, according to top diplomats. Senior posts are increasingly being occupied by “Tony's cronies”.

“It is no secret that most, if not all, Foreign Office officials have deep doubts about the Iraq war, or at least the way it was done,” according to a senior diplomat. “But they think twice before speaking out about it, even internally. This is not the result of any specific instructions, but rather of spineless cringing officials acting pre-emptively. Nothing downbeat is allowed to be said about the war.” Or, it seems, about the wider war on terrorism.

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Leadership and angst

Follow my leader

Oct 21st 2004
From The Economist print edition

Why leadership makes Britons queasy

AROUND 1,200 businessmen gathered in London this week to hear seven American men tell them how to be better leaders. The two-day event was a little like a Revivalist meeting, with everyone hanging on the utterances of the speakers, who prowled around the platform with microphones. That resemblance grew when Frank Maguire, an ex-boss of Federal Express, made everyone stand up and hold hands, and said: “We're going to cross the road together.”

Brits are generally uncomfortable with this sort of thing. The audience responded to Mr Maguire's invitation with the kind of uneasy enthusiasm usually reserved for a tambourine player in a rural parish church. But they must have been true believers: everyone had paid around £1,600 ($2,900) to attend.

“It's hard to think of British equivalents of Rudolph Giuliani or Jack Welch,” says Lynn Sedgmore, chief executive of a quango called the Centre for Excellence in Leadership, who was taking a break from the conference to drink a coffee sponsored by a business school. Ms Sedgmore goes to lots of talks on leadership and says the main speakers are invariably American. Why do Brits find leadership so foreign?

Maybe just because Americans started thinking and writing about leadership earlier, at least in a business context. Around 3,000 business books are published in the United States every year and leadership studies is now a distinct genre. So perhaps it is unsurprising that America now has so many leadership wonks.

But Britons also tend to mistrust charisma. This could be down to centuries of Anglican churchgoing, when priests who showed too much enthusiasm in the pulpit were deemed highly suspect. As a result, British businessmen tend to sound more convincing when talking about balance sheets than when sharing their vision.

A bigger problem, though, is that leadership still awakens anxieties about class and race. Leadership was once taught on the blackboards and rugby pitches of Britain's private schools to boys who were then meant to go out to the tropics and subdue the natives. That now makes it faintly embarrassing. Until these memories fade, Americans will, as Mr Maguire puts it, “have a lot more freedom to hold each other's hands”.

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Anglicans and gays

Closet-minded

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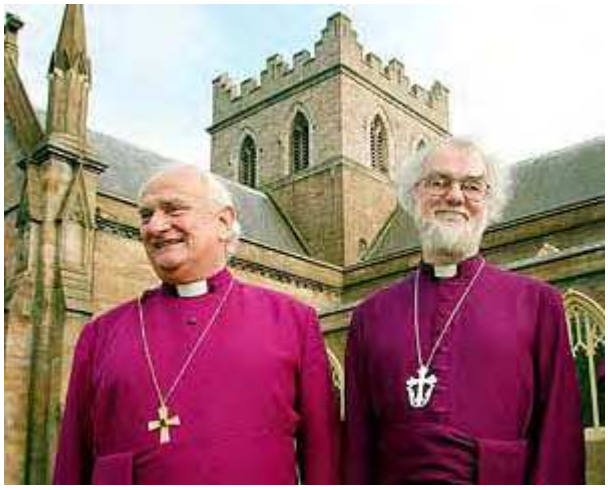
The Anglican church tries to solve its gay problem



Eames and Williams in the pink

THE mission of the Anglican church, according to Robert Eames, an Irish archbishop, is to bring hope to "a suffering and bewildered world". On October 18th, a commission chaired by Mr Eames unveiled the fruits of a year's agonising over gay bishops and same-sex marriages. The report shows that, when it comes to homosexuality, the suffering and bewilderment is not so much with the world as with the Anglican church.

Torment reached a high pitch in June 2003, when Jeffrey John, a gay but celibate priest, was appointed suffragan bishop of Reading. Following an attack by conservative evangelicals, Rowan Williams, the Archbishop of Canterbury, pressured Mr John to stand down. A month later, though, American Anglicans consecrated the out-and-proud Gene Robinson as bishop of New Hampshire. That, together with the blessing of same-sex unions in Canada, brought outrage and threats of schism from African clerics, for whom homosexuality is something between a sin and an impossibility. It also sent traditionalists flocking to America, where evangelical congregations may be rich enough to bankroll a breakaway church.

Mr Eames's first recommendation is that everyone who has behaved badly express "regret" for their actions. America's renegades quickly did that, although they stopped short of self-flagellation. Regret, for them, means sadness over the fact that a righteous decision to ordain a gay bishop should have been taken so badly by a clutch of Bible-thumping zealots.

There is less chance of compromise, even of a gritted-teeth kind, over the broader treatment of gays. Mr Eames's committee advises more discussion and closer adherence to rules; if that doesn't work, he says, liberals and literalists must "walk apart". Both sides say they can do that, but only because they reckon they can take the majority of the church with them while casting the other lot into the wilderness. "We are convinced that our position is mainstream," says David Banting, chairman of Reform, a conservative evangelical group. "New arrangements will have to be made for the revisionists."

Those who see things like gays and women in the priesthood as western heresies have become powerful in recent years, thanks to the growth of Anglicanism in poor conservative countries. But the "mother" Church of England can no more bow to pressure from them than can liberal Americans. Domestic attitudes to homosexuality are becoming more tolerant, and ministers cannot but twist in secular winds, however much they preach against them. After all, the Archbishop of Canterbury is appointed on the

advice of the prime minister.

Another sticking point is manpower. The Church of England increasingly depends on women to fill the clerical ranks; last year, it accepted 239 women and 265 men for ordination training. It also depends on gays, particularly when it comes to inner-city parishes. “If you have a family and three kids, you don't want to live on a sink estate,” says Martin Reynolds of the Lesbian and Gay Christian Movement. Mr Reynolds, who was burgled seven times while ministering to one flock, reckons that 15-20% of priests are gay.

The West could go its own wicked way if the provinces of the Anglican church learned to ignore each other. But that is unlikely. The idea of a unified “world church” has an irresistible appeal for those at the top; it would take a brave archbishop of Canterbury to say goodbye to 17m Nigerians. And better communication makes it easier for noses to be poked into other dioceses' business. Thirty-four years elapsed between the consecration of the first female priest, in 1944, and a definitive ruling on the issue. Such leisurely progress on a difficult issue seems impossible today.

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Red tape

Bad language

Oct 21st 2004
From The Economist print edition

It's not power-mad governments so much as badly-drafted rules that tie people up in red tape

WHY do worthy reforms end up as pointless or counterproductive rules? A new report by the Better Regulation Task Force, a government-sponsored watchdog, blames woolly language, which allows regulators to be overzealous and makes their victims timid.

Take the new Security Industry Authority (SIA), set up to license private detectives, bouncers and the like. They must now be trained and screened, to weed out criminals and cowboys. Fair enough. But this was not intended to cover stewards at sporting events like football matches. These are already thoroughly regulated with what is generally reckoned to be the best system in Europe. But the law was not drafted clearly enough to exclude them.

So football clubs now face a tiresome, costly and futile extra burden. “Because football grounds sell alcohol, the SIA says that stewards count as ‘door supervisors’,” says John de Quidt, of the Football Licensing Authority. “That could require up to 30,000 stewards to do an SIA-approved course, costing a three-figure sum, and apply for a £195 licence every three years, and undergo police checks.”

The football clubs are contesting this. But other victims of regulation make things worse by interpreting woolly regulations with timid literalness. Money-laundering laws require “adequate” identity checks, so the Financial Services Authority told banks to “reconfirm” customers' identities. The banking industry's trade body decided this should be taken in the most literal sense, as “get photocopies of every customer's documents”. That leaves a lovely paper trail, but does little to deter real money-launderers. Alex Hoare, whose family-owned bank in London serves 10,000 of the poshest people in the country, recalls: “We had to write to all our customers saying ‘we know you're a High Court Judge, we know you're in Who's Who, but you still need to send us a copy of your passport’.”

The language of regulation also makes it hard for outsiders to know what the law actually demands (although it's pretty clear about the penalties for breaking it). Few people outside the bureaucratic priesthood know the nuances that distinguish “guidance” from “guidelines”, “voluntary” codes from “approved” ones, or “best practice” from “good practice” (to name just some of the terms in use). Some of these have the force of law. Others lay down a single way of complying when in fact different methods are permissible. Some are wholly voluntary. Often, the elements are mixed, but published as if everything is compulsory. “Frequent use of the word ‘should’ tends to make those using guidance feel that they have no choice but to follow it to the letter,” the report's authors note.

To illustrate this, the report gives the example of food labelling. Some of the rules are sensible (only free-range eggs may be labelled as such). Others are bafflingly obscure. One hapless jam-maker was threatened with prosecution for labelling marmalade “traditional” when the recipe was only 34 years old, rather than the 50 laid down by a (non-statutory) regulation. The firm now labels it “classic” instead.

Woolly regulations are not just tiresome and expensive. They can also be dangerous. The law requires swimming pool managers to make “adequate” provision for safety. But guidelines endorsed by the Health and Safety Executive said that children under four should always be accompanied by an adult, and that any deviation should be “justified in written procedures”. Rather than bother with that, some swimming pools have insisted on one-to-one supervision, making it harder for parents to teach their children to swim. As Ian Peters, one of the report's authors, notes, that is a more dangerous result.

What to do? The taskforce has ten recommendations about how to avoid regulatory creep: they chiefly amount to better consultation and clearer thinking. No one would argue against that. But the outcome may be more rules, about rulemaking. Mr Hoare, currently grappling with a new law about distance

marketing that prevents him doing business over the phone, even with his oldest and savviest customers, is sceptical: “We've seen these promises to cut red tape before,” he says.

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Sainsbury's

The trouble with IT

Oct 21st 2004
From The Economist print edition

Britain's oldest supermarket tries to turn itself around

IT WAS already widely known that Sainsbury's, Britain's oldest supermarket, had joined Marks & Spencer and WH Smith in the retailing tar pits. But on October 19th investors found out just how deep the firm had sunk. Justin King, the company's latest boss, issued his second profits warning in eight days. Profits would be around £260m, he said, down from £675m last year. After writing off large parts of the disastrous modernisation programme imposed by Sir Peter Davis, Mr King's predecessor, the supermarket could even finish the year in the red—the first net loss in the firm's history. Tesco, by contrast, is expected to rake in almost £2 billion in profit this year.

Mr King's escape plan is to focus on Sainsbury's main business—food—and sort out the supply-chain problems that have led to empty shelves and frustrated shoppers. But this may be difficult. Sir Peter spent hugely on high-tech distribution centres, but they have done little to solve the company's supply problems.

Another part of his plan was a fancy new IT system run by Accenture, a business-services firm. But that didn't work either: Mr King said that the new computer system had failed to deliver, and that the contract with Accenture would be re-negotiated.

Being associated with such a high-profile failure might be expected to damage one's reputation. Certainly Sir Peter's looks tarnished. Happily, this fate seems to have escaped Ian Watmore, the man responsible for running Accenture's IT consultancy business at the time. He has just been appointed to head up the e-Government Unit in Whitehall, where he will oversee the government's notoriously calamitous IT projects. Taxpayers must be hoping that he will have better luck with the NHS's computers than he did with those at Sainsbury's.

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North-east referendum

Yoohoo! We're still here!

Oct 21st 2004 | BERWICK UPON TWEED
From The Economist print edition

Why some people in the north-east want an assembly

Get article background

THE 350 miles between London and Berwick-upon-Tweed, the furthest bit of England from the capital, can seem a lot further, says Alan Hughes, a vicar in Berwick. As chairman of a school, he sent three letters to the government in six years. Two came back via the Scottish Executive, to which Whitehall bureaucrats had sent them, thinking that Berwick, once a much fought-over strategic fort in the wars between English and Scottish monarchs, was north, not south, of the border.

North-east England's anger at metropolitan ignorance is the main reason why the government judged it the region ripest for a regional assembly and thus why locals are currently voting on whether or not they would like one. Ballot papers for the all-postal vote went out on October 16th. The result will be announced on November 4th.

Politicians have been trying to drum up support for the idea. Gordon Brown, the chancellor, says that it would “deliver more jobs, more growth and a better quality of life”, even “enabling the north to catch up with the south and lead Britain”. Locals seem less stirred up. Only 28% claim to know anything much about it, which doesn't stop 48% from saying they are planning to vote.

There is good reason for apathy. The assembly will have a budget of only about £350m, direct control of only the regional development agency, and some say in how other quangos spend about £600m on housing, transport and training. Turning the region round looks a tall order.

“No” campaigners say it will waste money. Their campaign emblem is an inflatable white elephant. Businesses seem to agree: a poll by the North East Chamber of Commerce found that 74% of its members are against it.

But some people think there is so much frustrated local energy that an assembly, however puny, will do good things. Peter Middleton says that if the idea had crossed his desk when he was European chief executive of Salomon Brothers, an investment bank, he would have dismissed it as “just another umbrella over other umbrellas”. But after three years chairing the Tees Valley Regeneration agency, the quality and expertise of local people has changed his mind. “If we get the right people, it could be very positive,” he says.

Other local bigwigs like the idea. Ray Mallon, a controversial but popular former police chief who is now Middlesbrough's mayor, is in favour. “If I can continue to serve my full term as mayor, I'll seriously consider standing for it,” he says. Sir John Hall, a former miner who built the MetroCentre shopping mall and bought Newcastle United Football Club, says he will certainly stand. He is thinking of forming a party for the purpose, called North-east First.

Bigwigs, of course, may be keen because an assembly offers the opportunity to become even more important. Among the mass of voters, other bad reasons for wanting an assembly are emerging. Support for it seems partly motivated by hostility towards the councils it would replace: the plan involves getting

rid of one layer of government in some areas.

Berwick's traders are keen because of fears that the borough council may approve plans for big superstores. When David Lockie, a councillor, tells a meeting that an assembly will mean the death of the council, a muttered “hooray” runs through the audience. They vote 16-3 with a dozen abstentions for the assembly.

The hottest political potato in Northumberland is the county council's plan to close 45 middle schools for 9-13-year-olds and shift to the more usual primary and secondary system. Parents of the 14,500 middle school pupils are enraged. “Basically,” says Gordon Inglis, one of the Berwick campaigners, “the council got a very bad Ofsted inspection report last year, but the schools got very good reports.” Campaigners reckon that if they can get rid of the county councillors, they can keep the schools. According to “Yes” campaigners in Durham, voters there are also motivated by the expectation that poorly performing Durham district councils will be subsumed into the county council, which the Audit Commission rates as “good”.

For locals, using the occasion to get rid of hopeless layers of government may make sense. But it doesn't augur well for this next round of devolution.

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The Tote

Odd odds

Oct 21st 2004
From The Economist print edition

Is the Tote's price too cheap?

BETTING on horses occupies a special place in the nation's heart. That may be why the Tote, the state-run betting outfit, has avoided privatisation for so long. But a bill now before Parliament is likely to see it sold off before the end of this year. Yet, according to a new report published by the Adam Smith Institute, a think-tank, the deal offers terrible odds for taxpayers.

The Tote, which first took bets in 1929, was once the main way of betting on horses. But starting in the 1960s, privately-owned high-street rivals have nibbled at its turf. In response, it created its own network of 457 betting shops. It's in fine fettle: operating profits rose by more than 50% last year.

A flourishing business in a booming gambling market makes investors salivate. City analysts say the Tote would fetch around £500m in an auction. But the government thinks that it would be better sold to the Racing Trust (to be chaired by David Lipsey, a Labour peer and former journalist at *The Economist*). This will plough profits back into racing, but the sale will raise at best £250m, and at worst as little as £150m.

For a sport that can hardly be described as hard up, this seems unusually generous, says the report's author, Keith Boyfield. The Tote will also keep its seven-year monopoly on pool betting (where stakes are pooled and the winners take the lot, minus taxes and an administration charge, as opposed to fixed-odds betting where the bookmaker bears the risk). It will keep choice positions on racecourses. And it will be able to operate casino-style betting at courses. The British Horseracing Board, which runs the industry, is delighted. The betting industry, which will be competing with this privileged creature, is quietly cross.

So why did the Tote escape the auction block? Mr Boyfield speculates that racing's posh friends helped. The idea that the best way of betting on the sport of kings could pass into the hands of financiers and bookies may have been too much for them to stomach.

But Lord Lipsey argues that as the state invested next to nothing in the Tote, it is only fair that racing recoups what it helped build. And it is not clear that the state actually owns the Tote anyway. The House of Lords, the country's highest court, has spent many happy hours debating just that point.

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Bagehot

Suspicious minds

Oct 21st 2004
From The Economist print edition

Does Tony Blair want George Bush to win? The Labour Party thinks so and it might be right

Get article background

IF GEOFF HOON thought it was business as usual, he was wrong. The sullen faces on the Labour benches that greeted the defence secretary's statement on October 18th were as telling as the almost pleading interventions. It was hard to find a single backbench Labour MP who supported the planned deployment of British troops near Baghdad under American command. Even the normally super-fluent foreign secretary, Jack Straw, was reduced to stammering confusion when asked in a radio interview to explain why the deployment was necessary.

There are plenty of reasons for the MPs' unhappiness. Some are genuinely concerned about exposing British soldiers to new dangers. Others worry about linking Britain too closely with what many fear will be an indiscriminate and bloody American onslaught on Fallujah. But what troubles them most is the suspicion that the British army has been enlisted by Karl Rove, George Bush's political strategist, to give a last-minute boost to the president's faltering campaign—and that, worse still, Tony Blair is only too happy to oblige.

Conspiracy theories of this kind are usually the preserve of the paranoid left. But when even government loyalists and supporters of the war start believing such tripe, it's a sign of both the repressed fury caused by the closeness of Mr Blair's relationship with Mr Bush and the extent to which trust in Mr Blair has eroded. It's one thing, say Mr Blair's critics, to do business with whoever happens to occupy the White House; it's another for a Labour prime minister to be secretly rooting for a right-wing Republican who is deeply disliked by most British voters.

How much truth is there in this accusation? Who, deep in his heart, does Mr Blair hope will win?

Officially, of course, the government is neutral. Ministers have been under strict orders to give no hint of their personal sentiments. MPs and party functionaries were told that the fraternal visits Labour politicians usually pay to the Democratic convention should be kept to a minimum and that any moonlighting with John Kerry's campaign team would be frowned upon. (There was, of course, not the slightest danger of any such contacts with Mr Bush's people.)

When asked, Mr Blair's aides insist that he is looking forward with equal enthusiasm to working with either Mr Bush or Mr Kerry. “The thing you can bet on”, says one of them, “is that within 24 hours of the result, Tony will have made himself the very best friend on earth of whoever has won.” Nor, despite some suggestions to the contrary, is Downing Street worried about being cold-shouldered by a victorious President Kerry. Democrats may have been irritated by Mr Bush's exploitation of his intimacy with Mr Blair. But Mr Kerry has been careful to praise Mr Blair, for he knows that the British prime minister will be a more important ally than the critics of the war in France and Germany. The 7,400 British ground troops in Iraq guarantee Mr Blair's status with Mr Kerry as much as with Mr Bush.

But although Mr Blair can be expected to get on just fine with either man, most people close to him assume the prime minister must realise it is in his interest for Mr Kerry to win. After all, Mr Kerry proclaims himself to be a multilateralist determined to rebuild alliances and Mr Blair is a passionate conciliator. Unlike Mr Bush, Mr Kerry talks in a way that does not jar sensibilities on this side of the Atlantic. A Kerry presidency would help ease Mr Blair's position with his party and heal rifts with other European leaders. And even if his policies on Iraq and the Middle East turn out to be much the same in practice as Mr Bush's, Mr Kerry would enjoy the benefit of the doubt—at least during those crucial months between the American election and the British one expected in May.

Other factors weigh in Mr Kerry's favour. Ministers have begged Mr Blair to put some “distance” between himself and Mr Bush. But despite Mr Blair's refusal to criticise his ally in public, in private he has expressed his frustration over the Pentagon's many avoidable mistakes in Iraq. The failure to send enough troops, the over-zealous dismantling of the Baathist bureaucracy and the torture at Abu Ghraib have all left Mr Blair squirming in silent fury. Mr Blair may be fond of Mr Bush, but he can't wait to see the back of Donald Rumsfeld.

A Kerry victory would also take some of the pressure off Mr Blair to offer an apology for the war. Labour MPs say they are often asked what guarantee there is that Mr Blair will not take the country into further messy and unpopular wars. Mr Bush's departure would provide the most satisfactory answer possible.

Head versus heart

From almost any rational perspective, Mr Kerry would make Mr Blair's life easier. Emotionally, however, it would be surprising if Mr Blair did not secretly hanker for Mr Bush's return. That's partly because a defeat for Mr Bush will increase Mr Blair's sense of electoral insecurity and give ammunition to those who see him as a liability to his party. But mostly it's because September 11th and Iraq have both defined them and locked them together.

Mr Blair was not dragged into the war on terror by Mr Bush as a result of some mistaken calculation of national interest: he was as much a believer as the president—perhaps even more so. Both men know that success or failure in Iraq will determine their place in history and that success depends on leaving Iraq as a more or less functioning democracy. That's why Mr Blair is willing to provide the troops the Americans say are needed to help make elections in January possible.

Mr Blair may try to convince himself that Mr Kerry would be no less committed to avoiding failure in Iraq than Mr Bush. But, deep down, he may well suspect that Mr Kerry does not have quite so much at stake as the odd couple that took the decision to go to war in the first place.

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German labour

The day the factories stopped

Oct 21st 2004 | RÜSSELSHEIM
From The Economist print edition

Getty Images

Car workers bear the brunt of a global reality for many German employees

Get article background

ADAM OPEL built his first cars in Rüsselsheim over 100 years ago. It was there on October 19th that thousands of German car workers marched under union banners to save their jobs. For 75 of those years, Opel has been owned by General Motors (GM), the American car giant which has demanded severe job cuts across Europe, and particularly in Germany: 10,000 people—nearly a third of its workforce—are to lose their jobs in Rüsselsheim, Bochum and Kaiserslautern.

For Rüsselsheim, a town of 60,000, it is a man-made disaster. Opel workers across Europe were determined to put on a show of solidarity. But unlike previous Opel walkouts—there have been four in as many years—this one was not about pay or shorter working hours. It was about survival. And that struggle involves employees at other German companies too, and not just those in the car industry.

The magnitude of the changes that are coming is not lost on the bosses of the usually tough blue-collar union IG Metall. At Rüsselsheim their tone was somewhat muted. But still their industrial action caused the machinery to stop for a week; first in Bochum, then Antwerp, then across Europe, inflicting losses estimated at €30m ($37.5m) a day on GM. The strike ended on October 20th, but without an agreement. The German workforce, in return for cost cuts, wants job security beyond 2010. But GM can make no promises.

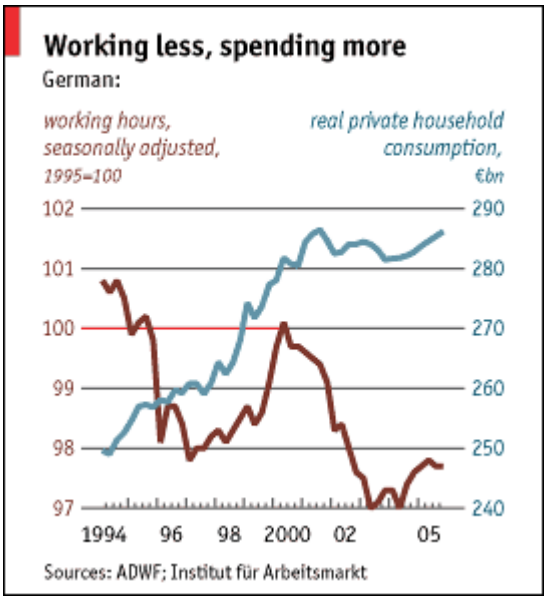
Besides making losses again last quarter, in a Europe that is supposed to be recovering, GM has trouble back home. Its $57 billion of unfunded retiree health-care liabilities led to two out of three debt-rating agencies punishing it last week with a downgrade of its bonds to just above junk status. GM cannot afford to be sentimental.

A lesson learnt

Wolfgang Clement, the German economy minister, sees the turmoil as part of the reality of globalisation, which politicians have little power to influence. Five years ago, when bankruptcy loomed at Philipp

Holzmann, a globally active building firm, Gerhard Schröder, the chancellor, stepped in. But state loans and guarantees only delayed the inevitable. The ruling Social Democrats have learned their lesson: they cannot protect jobs in Germany from a downgrade in Detroit. Their only remedy is to hasten the restructuring of the German economy.

This week the country's six leading economic research institutes gave their verdict on that. The government's reform programme, begun three years ago, is beginning to work, but not fast enough to bring recovery next year. GDP growth is forecast at a meagre 1.5% for 2005, compared with 2.3% for the European Union. The main problem is domestic demand (see chart), which has not picked up as it did in previous cycles. Companies, though building profits, mainly from exports, are not investing at home. Entrepreneurs polled recently by the German Chamber of Industry and Commerce see only gradual improvement, led by exports. The construction and retail sectors have barely recovered from the depths of 2002. Even services, which traditionally lead recovery, offer low expectations for next year. The general inclination in all sectors is still not to invest. Consumers are not buying: many are fearful of their jobs—more than in the past because, from January, a government reform will make things tougher for the long-term unemployed.



Nor is it only Opel workers who have been taking to the streets. There are problems too at KarstadtQuelle, the German group which is Europe's biggest department store and mail-order firm. Both companies may be essential stops on the road to reform, but they are further damaging consumer confidence.

The cost of labour in these two traditional German sectors has proved too high. Alarm bells rang far too late. GM has had a running battle to reduce costs while maintaining capacity for a European upswing. Now it has run out of breath. With Karstadt too it is a case of reacting too late and rattling the faith of creditors. This week, problems with securing a €1.7 billion syndicated bank loan threatened to jeopardise a restructuring plan carefully worked out only last week with the white-collar union Verdi. Karstadt's bankers are not the only ones who doubt there is much resale value in 77 smaller department stores which do not fit its strategy.

Car firms and retailers account for 10% of all private-sector employment in Germany. Many of these workers are now more concerned about holding on to their jobs than raising or protecting their pay. At Opel, managers are prepared to discuss limited job security. Karstadt cut a deal to reduce costs and trim its workforce by natural attrition. DaimlerChrysler and Siemens forced more work for less pay by threatening to relocate production. Managers at Volkswagen (VW) want to reduce labour costs by 30% by 2011. IG Metall's demands for job security for VW workers may trigger more strikes later this month.

One of the arguments used by unions—that lay-offs and wage cuts can do harm as well as good in a downturn by hitting consumption—is partly true. German car workers are big buyers of German cars. But unfortunately neither their profligacy nor that of shop assistants can sustain an entire economy.

Politicians of all stripes are coming to terms with the fact that restructuring is best left to the private sector. “All we can provide is the legal framework,” says Mr Clement. It is rather embarrassing, then, that the European Commission chose this time of crisis to file a lawsuit against the German government for its protection of VW. A law passed in 1960 prevents any single VW shareholder from exercising more than 20% of shareholders' voting rights at the firm, and gives the federal government and the state of Lower Saxony the right to two seats each on the VW supervisory board. The commission rightly claims this discourages investment and a foreign takeover of VW, hampering free capital flows in the EU.

Will globalisation see the shrinking of German car production from 5.5m cars a year to around 3m, closer to that of France and Spain? That seems to be the trend now that cheaper manufacturers can be found in central Europe. Meanwhile, Germany will attempt to turn itself into more of a service economy like Britain. New job prospects for former car workers are not great. The government's job-creation schemes remain the least convincing of its reforms. While numbers have risen in subsidised part-time “mini-jobs” and casual jobs, the takers have tended to come from outside the ranks of the officially unemployed. One-man start-up companies, the so-called *Ich*-AGs, though popular, have tended to fizzle out after the first year. The year to July saw a net 95,000 increase in employment and the forecasters predict 200,000

more in 2005. But despite that, net contributions to the social security pool are likely to fall.

“Don't cut our wages,” shouted one marcher in Rüsselsheim, “cut the hidden labour costs.” He meant the mandatory social security and insurance payments that cost employers a quarter as much again per employee. But the government cannot afford to reduce these: its budget deficit, forecast at 3.5% of GDP next year, has already attracted the wrath of Brussels. Whichever way the cake is cut, it seems, masses of German workers are doomed to lose their jobs. It is a shame that the news came to them so ill-wrapped and so late.

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Toymakers

Trouble in toyland

Oct 21st 2004
From The Economist print edition

Tech-savvy kids and discount chains give toymakers a tough time

Alamy

Sorry, son, but what's an iPod?

ONE month to go until Thanksgiving; two months until Christmas. It is the beginning of the busiest shopping season of the year, but many toymakers are not in a festive mood. This week Mattel, America's biggest toymaker, reported a 2% drop in sales in the third quarter compared with that period last year. Sales of its Barbie dolls in America fell by 26%, much worse than expected. On the same day Hasbro, the second-biggest, announced its sales were down 2.5%. California's LeapFrog, in third position, gave warning about lower profits. And to add to the glums, analysts at Harris Nesbitt, an investment bank, downgraded its outlook for the entire toy industry from positive to negative.

American toymakers have been in trouble for a while. Over the past 18 months the industry has lost about 500 shops. FAO Schwarz went out of business this year. KB Toys filed for Chapter 11 bankruptcy protection and closed 375 shops. Toys “R” Us, once the hottest toy retailer, is in the midst of a major restructuring. It has shut all its 146 Kids “R” Us stores and its 36 Imaginarium shops. It is trying to play down speculation that it is planning to leave the toy business. And even though Disney recently opened a new toy store on New York's Fifth Avenue with great fanfare, the company is largely getting out of toy retailing. This week it concluded a deal to sell 313 stores in America to Children's Place, a retail chain. Disney will keep only its Fifth Avenue store and those at its theme parks.

The problems in part come from changing demand. Children today have far more alternatives to toys, which means traditional toymakers have to innovate continuously if they want to remain competitive. Many have failed to keep pace with the popularity of video games, the internet and other gadgets, including the mobile phones that now appear on many youngsters' wish lists. “Kids, at a younger age, are finding technology more fun, challenging and empowering,” says Irma Zandl, at the Zandl Group, a New York-based youth-trends research firm.

The way toys are bought is also changing. Big discount chains, especially Wal-Mart and Target, have been eating away at the $27 billion American toy business. Toy sales at Wal-Mart account for one-fifth of total sales. Target controls 18% of the market. “Discount retailers continue to squeeze many smaller, independent shops out of business,” says Sean McGowan, a toy analyst at Harris Nesbitt. And then there is the power of Asia. China and Hong Kong now supply almost three-quarters of the world's toys.

European toymakers share some of the same problems, but only to a point. European children are still less tech-savvy than American kids, but catching up. Pricing by France's Carrefour and other European discounters is not yet as predatory as Wal-Mart's. In Franche-Comté, a region in the middle of France, and in the south of Germany, some small producers of old-fashioned wooden toys are still doing well.

But Lego, Europe's biggest toymaker, lost money last year when sales dropped by a quarter. In January, the Danish family-owned company fired its chief operating officer and put Kjeld Kristiansen, grandson of its founder, in charge. Mr Kristiansen is now trying to refocus the company on its core product, its colourful bricks. He is also up in arms against imitators. Mega Bloks, a Canadian firm, has done well with building blocks that look very similar to Lego's bricks. Lego is suing Mega Bloks for trademark infringement.

Germany's biggest toymaker, Playmobil, and Ravensburger, a German maker of games and books for children, are in good shape. Although the German economy is in the doldrums, Playmobil, which makes little plastic figures with a perpetual smile, had double-digit growth rates in the past three years. After a rough patch three years ago, Ravensburger slashed its product list by one-third and cut costs. Last year the company made a healthy profit, thanks to Germans' enthusiasm for puzzles, for its new board game, called “King Arthur”, and for “Ministeps”, Ravensburger's new series of games and books for toddlers.

But there are some bright spots in America too. Malibu-based JAKKS Pacific increased its sales last year, with help from its Dragon Ball Z line of figurines. One secret of its success is keeping toys simple and cheap. On October 19th, JAKKS said its revenue more than doubled during the third quarter compared with a year ago. But on the same day it was hit with a lawsuit from World Wrestling Entertainment, which claimed that JAKKS bribed a former executive, so as to win lucrative licences. JAKKS's shares plunged in response, even though it denies the allegations.

But who knows what Santa will bring next year? Companies that make toys linked to films are already relishing the prospects provided by a rash of new films for children. These include “The Chronicles of Narnia”, “Harry Potter and the Goblet of Fire”, “Batman Begins” and “Jimmy Neutron Two”. All should generate demand for toy spin-offs. Meanwhile, Barbie, conceived in 1959, will be one year closer to drawing her pension.

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Economist.com BUSINESS
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Pleasure craft

Lovely boating weather

Oct 21st 2004 | GENOA
From The Economist print edition

Italy's boatbuilders find plenty of rich buyers

GENOA is on the Italian Riviera, but its steelworks, container parks and oil terminal are not the usual charms of a millionaires' playground. Even so, for many wealthy people it was the place to be last weekend, to see the Salone Nautico's fabulous display of luxury boats and yachts.

With some 350,000 visitors, the event is a shop-window for Italy's boatbuilders, who lead the market in providing the super-rich with boats stretching beyond 24m (79ft). Italy's boatyards make more than a third of all the floating palaces around the world. At this year's show, Azimut-Benetti and Ferretti-Riva, the two leading producers, displayed their latest and most opulent models.

Italy builds all kinds of pleasure craft and two-thirds, worth €1.7 billion ($2.1 billion) last year, are exported. According to Paolo Vitelli, chairman of the Italian boatbuilders' association, the winning combination at the very top of the market is style, fine fabrics, skilled carpenters, fashion, technology and innovation. “We are masters in these areas. The business is tailor-made for Italians.” He is unconcerned by high oil prices and parts of the world sailing into economic doldrums. The market for luxury goods seems impervious to these.

Three factors, says Mr Vitelli, have helped the market grow. Boatbuilders have raised output by switching to modern production techniques; more marinas have been built, which makes life easier for owners; and the number of millionaires with money to splurge on pleasure craft has risen sharply.

Their pockets have to be deep. Azimut-Benetti, which Mr Vitelli founded in 1969, offers a range of craft. At the top of its fibreglass-hulled Azimut range is a 35m (116 ft) motor yacht which costs €8.5m. A steel-hulled Benetti, however, might cost five times that. Mr Vitelli's business reported net profits of €35m on sales of €403m last year and it is expanding strongly. Meanwhile, new markets, like China and Russia, are opening up and producing their own crop of boating millionaires.

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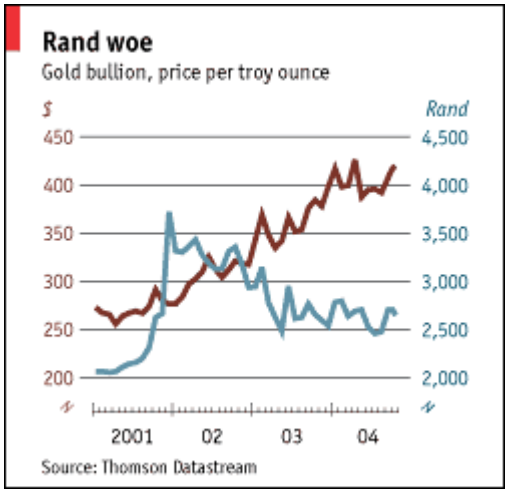
Gold

Disharmony

Oct 21st 2004
From The Economist print edition

A curious bid to create the world's biggest gold producer



SELL in the market and run. That may be sound advice for shareholders of Gold Fields, the South African mining company that this week received an uninvited all-share offer from Harmony, its local rival. The bid set off much excited talk. Behind it lay a Russian tycoon, Vladimir Potanin, whose Norilsk Nickel has since March owned 20% of Gold Fields. If the deal went ahead, it would create the biggest gold producer in the world. But will it? Why, today, would anyone want shares in any South African gold-mining company?

Mother Nature has not been much help. In Ghana and Australia, say, the ore lies near the surface; in Ghana it is mined opencast. South Africa's gold lies deep; some shafts go down three kilometres (1.9 miles). And the ore is of lower quality than in the past: the producers crush as much ore as they did 30 years ago, but get less than 40% as much gold. This means South African mines need a good gold price.

Here politics has helped. The old fantasy of gold as a “store of value” has flourished since the September 11th terrorist attacks on America. And if enough people believe it, it becomes true. On that dreadful day, gold was $288 an ounce; this week it was around $420. But foreign-exchange markets have stolen that gain, since South Africa's currency also has flourished. The day the Twin Towers fell, a dollar would buy 8.62 rand; this week only about 6.35. Gold is priced in dollars, but South African miners are paid in rand—and their wages too have risen fast.

Their employers have felt the pain. The rand gold price peaked at the end of 2001. It recently hit a three-year low. Harmony's chairman, Patrice Motsepe, this month presenting its annual report for the year to June 2004, put the results bluntly: with gold at its dollar low of $252 in April-June 2001, he said, the industry made a profit of $20 an ounce; in the same quarter this year, with gold about $390, the industry lost about $50 an ounce. And nine-tenths of Harmony's 3.3m ounces of gold last year was South African. Its operating result slid from profit into a $144m loss.

The outlook is less gloomy now, as Harmony's July-September results, out next week, may suggest. Gold has bounced, in both rand and dollar terms. And Harmony has won union acceptance of a shift system that will enable it to mine every day in the year except for 12 public holidays.

But Gold Fields also gains from price rises, and it is less tied to South Africa: it dug 2.8m ounces there in 2003-04, but another 1.35m, at lower cost, elsewhere, and made a $156m operating profit. No wonder the board of Gold Fields (and trade-unionists, fearing job losses) snorted at the notional $8 billion of Harmony's all-share offer. The company swore to push on with its own plan to merge its assets abroad with those of IAMGOLD, a Toronto-based outfit with stakes mainly in West Africa. The result would be a new company, 70%-held by Gold Fields, with 2m ounces a year of non-South African output.

So it is clear why Harmony would want Gold Fields, but not why shareholders of Gold Fields should want to swap. Yet Mr Potanin does. Why? He bought his stake in Gold Fields both to acquire non-Russian assets and to diversify. Yet neither aim would be visibly advanced by holding a smaller share of an enlarged company.

Gold Fields has no explanation. The natural one would be that Mr Potanin has reached a private deal

about the future with Harmony. There is no such deal, says Bernard Swanepoel, that company's chief executive; Norilsk just sees the merits of a Harmony-Gold Fields link-up. Maybe, but, unless the bid terms are improved, the “biggest gold producer in the world” is likely to remain the one it is today: Newmont Mining, of Denver, Colorado.

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Google

On to the desktop

Oct 21st 2004 | SAN FRANCISCO
From The Economist print edition

Once again, Google makes Microsoft look out of date

HARDLY a month goes by without Google, the world's most popular internet search engine, launching another cool product that annoys its arch-rival, Microsoft. This month's example is “Google desktop search”, a tiny bit of free software that puts a cute little icon on the taskbar of Microsoft's Windows operating system. It calls up the usual Google page that is used to perform web searches, except that users can now also find almost anything they have lost on their computers' hard drives.

Google thereby addresses one of the biggest problems with today's Windows “desktop”; that stuff is increasingly hard to find. The Macintosh system, which Apple pioneered in the 1980s, and Windows, Microsoft's rather clumsy imitation of it, were appropriate when most PC users needed to keep track of just a few dozen files. Today they tend to have thousands, including pictures, songs and e-mails. If you want to find all the files that have something to do with, say, your friend Jane, forget it.

With Google's desktop search, however, this becomes easy. What makes it so embarrassing for Microsoft is that the world's biggest software company's answer to this problem was supposed to be contained in a new file-storage and search system in the next version of Windows, code-named Longhorn. Alas, in August Microsoft announced that Longhorn would not be available until 2006, and that its new storage method, called WinFS, had been dropped.

It gets worse for Microsoft. For months, Google has also been letting people test its new web-based e-mail service, Gmail. This offers new and more intuitive ways of viewing trails of e-mails. More importantly, it offers huge amounts of free storage, so that users can store their digital stuff on Google's server computers rather than on their own (Windows-run) PCs. Google, in other words, is attacking from every side. And there is more in the pipeline. “Google Print” is software that will help people search inside books (similar to a technology now provided by Amazon). “Google SMS” will help people to search the web from their mobile phones (Microsoft hates this too). Even a Google web browser is apparently in the works.

To be sure, nobody is yet counting Microsoft out. The firm has a record of coming late to new technologies, but then playing so rough (and wielding its operating-system monopoly so shamelessly) that it still manages to be the last one standing. In an effort to catch up with Google, Microsoft plans to launch a new search engine for both the web and the desktop, separate from Longhorn, by the end of this year. But what little of it is visible so far looks remarkably like, ahem, Google.

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Semiconductors

The end of Moore's law?

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What Intel's latest stumble means for the chip industry's rule of thumb

I'm so sorry, says Barrett

IT IS not often that the chief executive of one of the world's biggest companies gets down on one knee and begs for forgiveness. Yet that is what Craig Barrett of Intel, the world's largest chipmaker, did this week at an industry conference in Florida. He was only joking, of course. But his apology for Intel's decision to cancel the next version of its flagship Pentium 4 chip highlights the latest in a series of stumbles by the company, which has once again been forced to follow the lead of its much smaller but increasingly feisty competitor, Advanced Micro Devices (AMD).

At issue is the best approach to making faster chips. For years, Intel has steadily increased the "clock speed" of its processors, the fastest of which now run at 3.4GHz, or 3.4 billion ticks per second. But it has now fallen victim to the law of diminishing returns. Although boosting the clock speed increases performance, it also increases the power consumption of the chip and the need for cooling. (Some of the very high-speed PCs used by serious gamers are even water-cooled.)

So, rather than concentrating on clock speed, Intel has decided to boost the performance of future chips in other ways, such as increasing the amount of on-board "cache" memory—and, in the coming years, switching its chips to a "multi-core" design. This means putting multiple cores—in effect, complete processors—into a single chip. These cores can run more slowly, consume less power and generate less heat, while collectively providing more processing power than a single core. "Multi-core is a way to achieve additional performance without turning up clock rates," says Dean McCarron, an industry analyst at Mercury Research. This idea is not new: IBM, Sun and Hewlett-Packard already sell high-end computers powered by their own multi-core chips. But it is only recently that PC software has been able to exploit multiple processors.

Intel's decision to de-emphasise clock speeds is just the latest example of how the company has reluctantly ended up following where AMD has previously led. (Earlier this year, AMD forced Intel to make a U-turn in its 64-bit-chip strategy.) AMD has long argued that there is more to performance than clock speed, and gives its chips model numbers giving some idea of their power. Its new Athlon 64 4000+ chip, for example, announced this week, runs at 2.4GHz, but its name implies rough equivalence with a 4GHz Intel chip. Intel is now adopting similar model numbers.

Having abandoned its obsession with raw speed, Intel is embracing the multi-core approach with great enthusiasm. Paul Otellini, Intel's number two, who is expected to take over from Mr Barrett next May, said last month that he expects 40% of desktop chips sold, and 80% of server chips, to be multi-core by the end of 2006. The switch to multi-core is, he says, a "sea change" in computing and "a key inflection point for the industry".

What does all this mean for Moore's law, the rule of thumb coined by Gordon Moore, Intel's co-founder, which states that the amount of computing power available at a given price doubles every 18 months? For most people, Moore's law manifests itself as a steady increase in clock speed from one year to the next. The cancellation of the 4GHz version of the Pentium is Intel's clearest admission yet that clock speed is no longer the best gauge of processor performance: henceforth, it will increasingly take a back seat to other metrics. But the law itself, the death of which has been announced many times, will live on.

Mr Barrett insisted this week that it would continue to apply for at least another 10-15 years. That is because multi-core designs mean chips' performance can continue to increase—even if the formerly much-trumpeted clock speed does not.

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Disney

Nice work, if you can lose it

Oct 21st 2004
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Disney's shareholders sue over Michael Ovitz's huge pay-off

JUST as things seem to be improving for Walt Disney, a trial started this week in Delaware that will replay in excruciating detail the most embarrassing period of the company's history. Disney shareholders are suing its current and former board members for breaching their fiduciary duty because they allowed Michael Ovitz to walk out of the company after just 14 months as president with a payment worth $140m at the time.

As chairman of Creative Artists, a talent agency, Mr Ovitz was once considered the most powerful man in Hollywood. That will be one thrust of the Disney directors' defence for luring Mr Ovitz in 1995 with a contract so generous in its severance terms that he could earn as much money if Disney sacked him as he could from staying for five years. In the event, Mr Eisner decided he had made a terrible mistake in hiring his old friend. In a long letter he wrote that “my biggest problem was that you played the angles too much, exaggerated the truth too far, manipulated me and others too much”, and complained about Mr Ovitz's extravagance.

The lawsuit against Disney has raised hopes among those who worry about soaring executive pay that a powerful legal mechanism is now available to restrain it. Spreading a bit of terror among company directors could concentrate minds in the boardroom. The Disney plaintiffs' lead counsel, Steven Schulman of Milberg Weiss Bershad & Schulman, recently said that “the precedential impact, if we get a judgment, will be a profound wake-up call for corporate America.” Less interested parties, however, are not so sure.

The reason is that, in the wake of Enron, Tyco, WorldCom and other corporate scandals, most board directors are already terrorised. Few would now be so foolish as to award an enormous pay package to an executive without leaving a paper trail to show they carefully considered it. Even minor board decisions at most big American companies now involve endless reviews and presentations from outside experts.

If the facts against Disney's board are proved, the case is more likely to be seen as a rare exception. The suit alleges that the board failed dismally in its duty to find out about the sort of contract Messrs Eisner and Ovitz were stitching up between themselves. When a board committee first met over Mr Ovitz, according to the complaint, it spent far more time discussing the $250,000 fee that Disney paid the committee's chairman, Irwin Russell, for securing Mr Ovitz's services than the alleged ten minutes it took to deal with the lavish employment contract itself.

Moreover, the board did nothing to investigate how the contract was subsequently amended in Mr Ovitz's favour. The case presented “suggests that the Disney directors failed to exercise *any* business judgment and failed to make *any* good-faith attempt to fulfil their fiduciary duties to Disney and its stockholders,” wrote William Chandler, chancellor of Delaware's Court of Chancery, last year, after an earlier hearing on the case. However it ultimately rules, the Delaware court is unlikely ever to have anything to say on the actual level of pay.

For shareholders interested only in Disney's financial performance, the case is a piece of history with fading relevance. Mr Eisner has announced that he will step down as chief executive when his contract ends in 2006. If the trial proves particularly unflattering, there may be more pressure on him to leave before then. The firm's board has set itself a deadline of June 2005 to find his successor.

Meanwhile, Disney's loss-making ABC television network has had some hit shows, for the first time in years. “Desperate Housewives”, a satire about suburban life, is the biggest new TV series of the season. That could help Mr Eisner's number two, Bob Iger, who wants to become chief executive, because ABC is

his responsibility. For the next few weeks in Delaware's courtroom, however, Disney has to settle for a series of repeats.

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Face value

How not to spend it

Oct 21st 2004
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AP

Why parsimony is good for Azim Premji, the boss of Wipro and India's richest man

JAPAN'S captains of industry slide anonymously through the Tokyo traffic in chauffeured black limousines. America's bosses hurtle importantly about in powerful Mercedes, Ferraris and BMWs. Azim Premji, the chief executive of Wipro, an Indian technology company, navigates the murderous traffic in Bangalore, his company's home city, in an ancient Ford Escort. The car is so decrepit that Mr Premji has had to seek assurances from Ford that the company will continue to service it.

Mr Premji's old banger says much about the man who has helped Wipro fight its way to the front of India's IT-export boom. Wipro is one of the country's biggest, fastest-growing and most valuable information technology firms. Since 2000, Mr Premji has tripled his firm's profits, to $230m, and more than doubled sales, to $1.2 billion. On a good day in the stockmarket, the 84% of Wipro that Mr Premji owns is worth $13 billion. If any of this has gone to his head, however, Mr Premji hides it well. Modest and quietly spoken, he seems vaguely embarrassed by his status as India's richest man. His conspicuous under-consumption says something about the status of his company, too. Financially, Wipro goes from strength to strength. Politically, however, the firm may not be on quite such a sound footing.

The politics that have most alarmed Wipro's shareholders this year have been taking place in America. The company specialises in taking IT work done in America (as well as in Britain and other rich countries) and moving it to low-cost India. Such “outsourcing” has boomed through America's IT recession, and beyond. This has fed suspicions that the growth of Indian IT firms like Wipro, Infosys and Tata Consultancy Services (TCS) has destroyed American jobs, creating a political backlash. Those fears have faded as the job market in America has recovered, and as American firms have found ways to manage the politics of outsourcing more skilfully. Confirming this, on October 15th Wipro reported strong results for its second quarter, including a 47% rise in sales over the same quarter in 2003, and a 67% increase in profits. Potentially, American and European firms could outsource far more IT work to India, if the political climate permits it. Since March, Wipro's shares have risen by about 50%.

Somewhat neglected in this happy analysis, however, is the politics at home. Indian politicians seek Mr Premji's counsel. The local press celebrates him as a symbol of India's emerging global competitiveness. But to Indian businessmen, Mr Premji belongs to a pampered and resented elite. Firms operating out of technology parks, such as the one Wipro occupies in Electronics City in the suburbs of Bangalore, pay no income taxes on export profits for ten years. More galling is the preferential treatment India's high-tech

businessmen get when land is dished out. Finding good land with clean title is one of the most challenging tasks a small business faces in India. Feted companies like Wipro get a free pass. Every state wants its own IT champions. Last month, the state of Tamil Nadu announced it was reserving 85 acres of land for Wipro on its planned “Knowledge Industry Township” on the outskirts of Chennai. Wipro, Infosys, TCS and others get the pick of whatever land the state government has to dole out.

Then there are the fat salaries that Wipro pays. By American standards, Mr Premji hardly feeds at the trough: he paid himself a wage of $48,000 last year, along with a commission (based on 0.1% of net profits) of $258,000 and perks worth $65,000. But by the standards of India, where the average annual income is $540, Wipro's boss collects a king's ransom. Vivek Paul, Wipro's vice-chairman, is based in America and earns over $1m. As its share price has soared, Wipro's local rival, Infosys, has created nearly 100 millionaires in dollar terms. Amid the grinding poverty along Bangalore's Hosur Road, which leads to Electronics City, a BMW dealership has sprouted recently—and not everyone is choosing to stick with the old Ford Escort. New money is regarded with suspicion everywhere. Such is the gap between rich and poor in India, and the proximity in which they live, cheek by jowl, that the IT industry's sudden fortunes could be explosive.

The unlucky many

None of this is lost on the leaders of India's IT boom. Their problem is how to build community relations and spread the wealth created by an industry which, under even the sunniest assumptions, is likely to employ no more than 4m of the country's 1 billion inhabitants. Nandan Nilekani, the philanthropic head of Infosys, had been pouring his energies and his rupees into a local political initiative to improve governance and infrastructure in Bangalore. That came to an abrupt end in May, when voters booted out Mr Nilekani's partner, S.M. Krishna, as chief minister of the state of Karnataka. Amar Bhide, a professor at Columbia University in New York, followed the campaign. Mr Krishna had put up posters all over the city, in English, heralding his state's IT and biotech policy, recalls Mr Bhide. “Why would any Indian voter give a rat's arse about Mr Krishna's biotech policy?” wonders Mr Bhide. “For that matter, how many voters could read the English billboards?”

Mr Premji's own good-works outlet is the Azim Premji Foundation, a not-for-profit organisation which spends $5m of Mr Premji's money a year on improving India's elementary education, concentrating at home in Karnataka. Dileep Ranjekar, the foundation's chief executive, remembers that Mr Premji started thinking in 1998 about how to “leave a legacy”. They came up with a “laundry list” of three areas: health, nutrition and education. They chose education because it affected the other two on Mr Premji's list as well. But $5m does not go far in a country in which more than 400m people cannot read or write. That, ultimately, indicates the real scale of the political challenge facing India's booming IT industry. And it dwarfs the problems Mr Premji has had to face in America.

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The insurance scandal

Just how rotten?

Oct 21st 2004 | LONDON, NEW YORK AND PARIS
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The insurance industry is the latest financial sector to have its darkest secrets exposed to the light

FIRST came investment banking; then mutual funds; now the insurance industry is mired in scandal, the latest target of Eliot Spitzer, New York's formidable attorney-general. On October 14th he filed civil charges against Marsh & McLennan, the world's biggest insurance broker, and announced settlements of criminal charges with two employees at AIG, the world's biggest insurer, and one at ACE, a big property-casualty insurer. The charges are part of an ongoing investigation into industry practices that suggest insurers and brokers have acted collectively (and secretly) to betray customers. An added twist is that the three main companies so far involved are led by members of the Greenberg family: Hank Greenberg is the legendary boss of AIG; his eldest son Jeffrey runs Marsh; and his younger son Evan is in charge at ACE. A business often thought to lack personality and drama is now suffering from an abundance of both.

Mr Spitzer's civil complaint against Marsh, filed in New York state's Supreme Court, alleges much misbehaviour, including fake bids, collusion, improper steering of business, payments by insurers to avoid solicitation of competing quotes, and outright threats against those resisting participation in the fraudulent schemes. Marsh acted, in short, less like a broker with a fiduciary obligation to its clients than as the linchpin of a racket. Proof for the existing charges, Mr Spitzer contends, is “rock solid”. Given the strength of the evidence and the seriousness of the infractions, the main legal conundrum he faced was whether he should file criminal rather than civil charges.

His leniency will be of only marginal solace for the industry. Mr Spitzer says his investigation into insurance continues to expand, with the only certainty being that he will bring more charges against more people and more companies. So far only two segments of the vast insurance industry have been implicated—the mid-sized sector and so-called excess liability insurance (ie, the umbrella policies companies buy to top off their core coverage), both prime territory for brokers.

But that looks certain to change. Mr Spitzer is said to like cases that champion the average person, and he is going after general insurers too. Subpoenas from his office demanding information were reported to have been received this week by Aetna and Cigna (health insurance), MetLife (life insurance), and UnumProvident (disability). Shortly after the complaint against Marsh was disclosed, Aon, the second-largest brokerage firm, put out a statement that only a lawyer could find reassuring: the actions described in the complaint would have violated its own policies and “to the best of our knowledge” were not present at Aon. Mr Spitzer's office quickly indicated that Aon is being examined with particular interest.

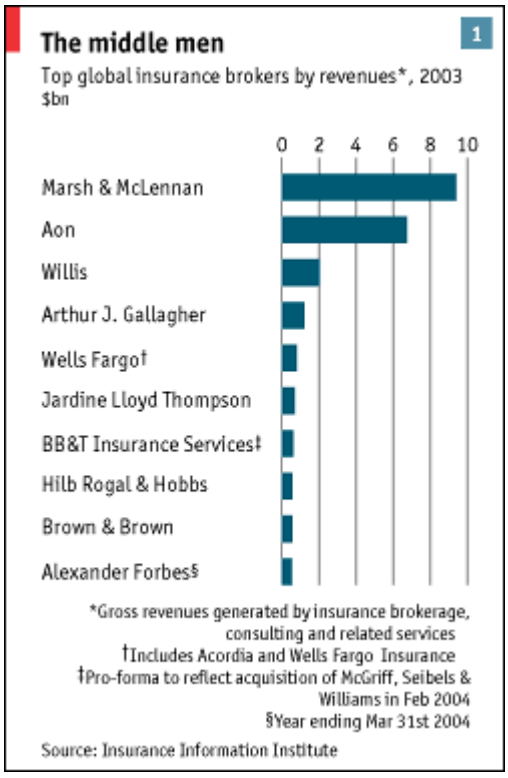
And Mr Spitzer is not the industry's only legal threat. On October 19th and 20th Connecticut's attorney-general sent out dozens of subpoenas to insurers operating in the state in the health, auto and employee-benefit sectors. In May he began investigating claims of widespread price-rigging and kick-backs. California began its own investigation of insurers and insurance brokers this spring. John Garamendi, the state's insurance commissioner, says he will soon bring civil charges against a number of companies, as well as introducing new rules to improve disclosure. Meanwhile, a barrage of private lawsuits has been filed in New York's federal district court, most of them against Marsh for misleading investors.

The embarrassment felt by the insurance industry is acute. But how did the problems arise? Few people outside the industry understand either its structure or how it has evolved in recent years. Essentially brokers are classic middlemen. They stand between companies that want to buy insurance and the insurers that sell it, taking a commission for services rendered. But the broker's job is no longer one of simply finding the lowest price. These days brokers help companies to prepare complex evaluations of their insurance needs, often in many different countries. That task requires knowledge of the insurance providers in each local market, but also a good understanding of local risks. Companies' proposals and risk assessments are used by insurers in making their bids; indeed, without the help of a broker many large companies would be unable to solicit meaningful offers from the big insurers. In effect, brokers serve as corporate advisers and form an important distribution channel for insurers. Since the brokers work for both sides, they have, increasingly, been paid commissions by both.

In their defence, brokers say these arrangements are disclosed to clients, and that, with adequate disclosure, the system can work. Yet disclosure is often vague, at best, and the potential conflicts are glaring. Indeed, Mr Spitzer has revealed what amounts to gross abuse of the pricing system. Insurers have been offering incentives to brokers in the form of so-called “contingent commissions”—money paid only if the broker places a certain amount of business with a particular insurer.

Contingent conflicts

Such commissions are generally calculated by the volume of business sent by a broker to an insurer—the more the better, regardless of whether it is in clients' interests. Less commonly, the commissions are based on the insurer's profits. But that can also harm customers, because a broker might choose not to push for a legitimate claim that will reduce the insurer's profits.



In the past some lawsuits have stemmed from these arrangements, notably a big case against Marsh and Aon in 2000. After a settlement, the testimony, evidence and disposition were subjected to a strict gag order, a common outcome in insurance cases. But legal momentum against contingent commissions has been building. The crucial breakthrough in Mr Spitzer's investigation appears to have been the emergence during the past month of telling e-mails. According to the complaint, Marsh threatened to “kill” one insurance company if it did not provide sufficient commissions. ACE was told by Marsh that receiving more business would require the payment of “above market” commissions to Marsh (as opposed to lower rates to Marsh's clients).

Further, Marsh executives were rewarded for moving business to insurers paying high commissions and penalised when they did not. In one of the most egregious moves, Marsh reached a deal that linked the size of its contingent commission to AIG's ability to maintain prices on policy renewals. “Marsh is secretly raising the price of insurance for its clients and putting at least some of the increase into its own pocket,” says the complaint.

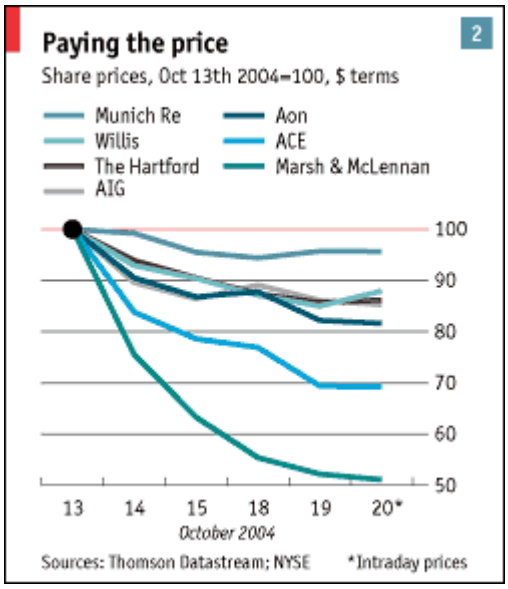
As bad as this may seem, the most damning allegation is that Marsh took its desire to steer business to insurers one step further and actually rigged bids. The complaint describes a series of schemes whereby AIG would submit an uncompetitive “B Quote” against a rival's bid at a rate suggested by Marsh. Marsh would then show its customer what were apparently competing quotes, knowing that invariably the rival's cheaper quote would be accepted and that it would later pocket a contingent commission. In

return, AIG would be allowed to win business in the future on similar terms.

Mr Spitzer cites a specific example of ACE making a bid more costly at Marsh's direction to allow AIG to provide the low offer on renewal of a policy with Fortune Brands, an American conglomerate. The Hartford, another American insurance giant, went along with similar schemes, according to the complaint, “because Marsh was its biggest broker, and it felt that Marsh would limit its business opportunities if it refused.” Munich-American RiskPartners, the American subsidiary of Munich Re, was asked so frequently by Marsh for a “live body” to attend client presentations for the sake of appearing to provide competition that a manager sent a message to Marsh: “While you may need ‘a live body', we need a ‘live opportunity'.” In an internal memo, a Munich-American manager characterised quoting artificially high quotes as “basically dishonest” and “awfully close to collusion or price fixing.”

After the charges were announced, shares of ACE and AIG fell by more than 10% and Marsh's by more than one-third (see chart 2). Tellingly, the share price of every other insurance company and broker fell as well. Marsh's market value has now halved, while AIG's is lower by $24 billion.

However, it is unlikely that any company will be driven out of business as a result of the scandal. Even Marsh might not be hit as badly as it may deserve. Typically, the risk departments of companies begin discussions about renewing their annual policies on September 1st, in order to allow for an orderly transfer at the end of the year. It may already be too late for them to go through the lengthy assessment and solicitation process with another broker. There is also a scarcity of choice. Consolidation has boiled down the number of truly global brokers to just three—Marsh, Aon and Willis. There could be a big shift if one of these were to be given a clean bill of health. In the meantime, Marsh, unlike an insurance company, faces no counterparty risk and thus should avoid the kind of fatal spiral that can hit a leveraged financial firm during a panic.



Marsh's quadruple whammy

Whether Marsh survives in its current form, however, is another question. Mr Spitzer says Marsh's bosses have not been “sufficiently forthcoming, open or honest to persuade me that they are the appropriate leadership if this is to be a reformed company.” Marsh's Putnam asset-management division was caught up in the mutual-fund scandal and its Mercer consulting unit is currently being investigated for its pension recommendations and also played a controversial role in the huge compensation package that was awarded to Richard Grasso, former boss of the New York Stock Exchange who is also being prosecuted by Mr Spitzer.

Presumably Marsh's board is gearing up to make big changes—Mr Spitzer says he will not settle charges with the current top team. Shrewdly, on October 15th Marsh appointed Michael Cherkasky as the group's new boss. He recently led Kroll, Marsh's corporate-investigation subsidiary, previously part-owned by AIG. In the distant past, Mr Cherkasky did a stint supervising a young Mr Spitzer in the Manhattan district-attorney's office.

But even if only some of today's top management survives, Marsh is badly bruised. It has suspended taking any contingent commissions, and revealed that these amounted to $845m last year, 7% of revenues but, more tellingly, one-third of its pre-tax profits. It might have to give all of that back. And anything short of a victory in court will trigger a large fine.

AIG has also been battered. The scandal comes on top of investigations by both the Securities and Exchange Commission and the Justice Department for work it did structuring off-balance-sheet entities for PNC Bank and possibly other companies as well. In a conference call with analysts, Mr Greenberg said the loss of contingent commissions would have no business consequences, but that seems naive coming from one so experienced. Losing access to a price-rigging cartel can surely only increase competition.

Inevitably, this will affect other insurers, putting structural pressure on prices just as cyclical factors suggest rates are softening. And still unclear is what sort of broad resolution Mr Spitzer might seek. In prior investigations, his style has been to use the threat of litigation to force through agreements that include lots of money, carefully scripted non-confessions of guilt, and widely trumpeted vows of reform.

The results have often been disappointing. It is probably no coincidence that agreements with investment banks and mutual funds have resulted in money moving to less-regulated areas, namely private equity and hedge funds. Insurance more than perhaps any other industry is global, so an inappropriate move by Mr Spitzer would surely send business overseas.

Europe looks on

But might the rot have already spread overseas? For the moment European insurers are on the periphery of the American scandal. Only Germany's Munich Re, the world's biggest reinsurer, and Zurich Financial Services, a Swiss insurer, were mentioned in Mr Spitzer's complaint and neither is accused of any wrongdoing.

Further, Europe does not have an equivalent of Mr Spitzer, and regulators in Europe are not currently intending to investigate relations between insurers and brokers. So only European insurers with a presence in America risk being directly involved in the scandal for the moment. Swiss Re writes 40% of its property and casualty business in America, although only 20% of these contracts are done via brokers. A similar portion of Zurich Financial Services' non-life policies are written in America, mostly directed through brokers.

All the same, European financial markets reacted nervously, and shares in Munich Re, Allianz and AXA all fell. The unknown factor is whether Europeans have also been corrupt. After all, the temptation facing brokers is the same everywhere. Like their American counterparts, European insurers pay brokers contingent commissions. Brokers also demand that insurers provide reinsurance work in exchange for referrals. Criticisms of these practices used to fall on deaf ears. “We consider contingency fees an aberration and we have been asking brokers since 1998 to abolish them,” says Thierry van Santen, head of the Federation of European Risk Management Associations in Brussels.

German insurers claim they are not aware of any unsavoury practices at home. For one thing, the use of intermediaries is less common. In many cases Allianz, Europe's biggest insurer, and Munich Re deal directly with clients. Moreover, Lufthansa, Siemens and other big firms have in-house brokers, which are not conflicted. Even so, American brokers have made inroads in the German market in recent years. Today the country's biggest broker is Aon Jauch & Hübener, a subsidiary of Aon. It is followed by Marsh, which expanded in 1999 when it took over Gradmann & Holler, a broker in Stuttgart.

German brokers are not regulated by BaFin, the country's financial regulator, but rely on a consensus-based system of self-regulation. The VDVM, an association of German insurance brokers, recently developed an ethics code for its more than 570 members. It now wants to speed up the implementation of these guidelines.

In France insurers and brokers profess to be shocked by Mr Spitzer's discoveries. Leading French brokers such as Fimat claim they are more transparent about their fees than rivals in other countries. They are, at least in theory, regulated by an agency under the wings of the economics ministry. According to French insurance legislation, the agency “can” oversee brokers. In reality they look after themselves, much like their German colleagues. In 2001 they agreed their own code of conduct when one of their main trade unions jointly developed new guidelines with France's association of risk managers.

But brokers in France and Germany will soon lose some of their independence. The European Union's Insurance Mediation Directive aims to bring all parties involved in the sale of insurance under the jurisdiction of one national regulator. The directive comes into effect next January, although it is being resisted fiercely by insurance lobbyists, so it will take even longer than usual for member states to implement the law. One obvious hurdle is that France and Italy, among others, do not have a single financial regulator.

A British disease?

Mr Spitzer's charges have raised most alarm in Britain. As in America, the business there is dominated by a handful of brokers. Aon has 25% of the British market, and Marsh is also a leading broker. Britain has several good-sized insurance brokers of its own. Willis is headquartered in London; others include Jardine Lloyd Thompson (JLT) and Benfield, a reinsurance broker. Benfield does about 40% of its business in America and has been contacted by Mr Spitzer, but says it does not accept contingent commissions. JLT

says such commissions account for just 2% of revenue. Though share prices in both companies dropped in the wake of Mr Spitzer's announcement, researchers at UBS, an investment bank, say that Marsh's stumble could mean more business for them. Justin Bates of Numis, an institutional broker, says Mr Spitzer's charges may stop both firms from being snapped up by the big three as insurance pricing softens.

Many people expect British regulators to launch their own investigation. But that will not happen immediately. The General Insurance Standards Council, the current regulator, says that it has no interest in a “fishing expedition” in the absence of a complaint. It is more likely, then, that the Financial Services Authority (FSA), which takes over the regulation of insurance brokers next January, will follow up on Mr Spitzer's complaints.

Though the FSA says that it is “monitoring the situation”, it has taken its cue from Mr Spitzer before on matters such as market-timing (a sin of mutual-fund managers) and investment banks' allocating of shares in hot initial public offerings to preferred clients. On both those counts, Britain has avoided the worst abuses (though there have been plenty of other financial-services scandals). The industry is cringing at the notion of the FSA demanding yet more information on top of the existing deluge of paperwork. But that might prove a small price to pay if the result is that it avoids the punishments facing American firms. The insurance industry's moment in the spotlight is far from over.

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Accounting standards

A question of measurement

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From The Economist print edition

The continuing rumble over international accounting standards

CHANGE is never easy; and the bigger the change, the more it hurts. So it is no surprise that the European Union's ambitious project to require its 7,000 listed companies to adopt international accounting rules by January 1st 2005 has been a difficult exercise.

Earlier this month, all seemed done and dusted, when the European Commission endorsed the last of the 41 accounting rules issued by the International Accounting Standards Board (IASB). This highly contentious rule, IAS39, deals with accounting for financial instruments, such as options and derivatives. It had been the subject of a row between the IASB and the EU for months, and was accepted only after the commission won over the most vocal critics, including the European Central Bank and much of Europe's financial industry, by deleting passages of IAS39 to create a looser version of the rule.

However, the commission's compromise is already fraying. Britain's Accounting Standards Board has publicly urged British companies to ignore the commission's version of IAS39 and use the IASB's original rule. Several international banks, including HSBC and UBS, have said they will use the IASB's version. Some companies that are listed in America, where accounting rules for derivatives are stricter than IAS39, could follow suit if they believe that capital markets will reward those who adopt the toughest standards.

There is a risk that the old patchwork of national accounting rules will be replaced not by a pan-European regime but by another mishmash. In an attempt to avoid this, and under pressure from the commission to amend IAS39 quickly, the IASB is reviewing its derivatives rule—but the chances of a new, generally acceptable version by January are slim.

Different banks will probably end up using different versions of the rule. One drawback of this is the perception that accounting standards will be as much a product of politics as of financial measurement. The commission is not supposed to be a standard-setting body. Yet its “hollowing out” of IAS39, after intense lobbying by European insurers and banks, especially French banks, is “tantamount to writing a new standard”, says the chief executive of one large European bank.

The repercussions could extend far beyond Europe. Almost 100 countries are due to use IASB's

accounting rules by next year. Still more, such as China, are expected to follow. Some worry that the precedent set by Europe might cause others to adopt the rules piecemeal. It might also complicate the IASB's long-running attempt to close the gap between its rules and those of America's standard-setter, the Financial Accounting Standards Board (FASB). That said, lobbying and political interference in accounting standards is scarcely unknown in America either: witness the technology industry's ability to blunt FASB's efforts to have employees' share options treated as an expense.

There may be unintended technical consequences too. Jeannot Blanchet of Morgan Stanley notes that the IASB designed its rules to work as a unit. So changing one standard in isolation, as the European Commission has done, could have unforeseen effects elsewhere.

These fears are not academic. Danish regulators gave warning recently that the commission's compromise could destabilise their country's financial system, owing to the “artificial volatility” that the rule would create in Denmark's mortgage market. Some insurance companies, too, worry that the commission's fudge could make their accounts more volatile.

At the root of the arguments over IAS39 is an important question of principle: how should assets and liabilities be measured? In the past, most national accounting standards used historic cost. For financial instruments, such as stock options and many other derivatives, this was often (conveniently) zero, or close to it.

This mattered less when the use of financial instruments was limited and markets for them were small. But both have exploded in recent years. Now companies from banks to retailers use derivatives and other financial instruments to hedge currency, commodity-price and other risks. According to the Bank for International Settlements, the value of over-the-counter derivatives worldwide is almost $8 trillion. But under old accounting rules, the value of derivatives did not show up on many European balance sheets at all—a remarkable omission, given the extent of some companies' exposure.

Fair value?

Simulated effect* of applying both IAS32 and IAS39 in 2003 as % of European banks':

	equity	net income
ABN Amro	14	0
Barclays	4	-34
BBVA	12	-7
BSCH	13	3
HSBC	3	-18
ING	28	4
Lloyds TSB	1	4
Royal Bank of Scotland	1	7

Source: Morgan Stanley

*Assuming all other IASB rules are used

Enter IAS39, which requires companies to use “fair value”—what a willing buyer would pay for an asset or liability in the market—rather than historic cost when valuing financial instruments. The growth of large, liquid markets in many of these makes their prices easier to define than in the past. Unlike historic cost, fair value fluctuates—so balance-sheet items and profits fluctuate too (see table). Banks and insurers, which use piles of derivatives, are less than pleased.

The IASB argues that IAS39, and other fair-value accounting standards, such as IAS32, which mainly affects insurers, do not create volatility: they merely disclose it. Investors can choose to read the volatility as they see fit. Critics counter that this volatility is artificial, having little to do with companies' long-term health. Far from enlightening investors, it will confuse them. Moreover, they say, measuring “fair value” is not as easy as it seems. Not every financial instrument has a deep and liquid market, and models are inexact.

The crux of the problem is that the systems of accounting that have developed hitherto are mixed bags of both historic costs, which do not change with time, and fair values, which can vary a great deal. It is inevitable that accounts will reflect changes in the value of some things but not others, making companies' numbers jump around more than they perhaps should. Eliminating one cause of volatility in accounts, as the commission did this month, might merely create more volatility elsewhere, as the unhappy Danes have discovered. In accounting, as in many things, there is no magic bullet.

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Citigroup

Mopping up

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Small scandal, big purge

WHEN Charles Prince became chief executive of Citigroup, the world's biggest bank by market capitalisation, just over a year ago, he faced two challenges, both daunting: cleaning up the bank's reputation and stepping out of the shadow of his predecessor, Sandy Weill. In one move on October 19th, Mr Prince made notable progress in both.

Last month, Citigroup landed in hot water in Japan, where regulators accused its private bank of selling securities and derivatives at “unfair” prices to its clients and of having sloppy controls. Citigroup was told to shut down its private-banking activities there and was also suspended from underwriting Japanese government bonds. Mr Prince vowed, as chief executives often do, to take action. An investigation was launched, conducted by an outsider: Eugene Ludwig, a former top American bank regulator.

Last week, Mr Ludwig's report landed on Mr Prince's desk. Having already gone through the usual motions—sacking six employees in Japan, including the head of the private bank there, and cutting the pay of another eight—Mr Prince probably could have then wrapped up the incident with the usual blather about contrition.

Instead, he went much further. Mr Ludwig apparently faulted three senior employees: Sir Deryck Maughan, a vice-chairman, head of international operations and former chief executive of Salomon Brothers, the investment bank swallowed by Citigroup in the 1990s; Thomas Jones, head of investment management; and Peter Scaturro, Mr Jones's deputy and head of Citigroup's private-banking business. On October 19th a brief memo announced that all three would be leaving.

Given that Mr Ludwig fingered executives at head office, it may be that the mistakes in Japan were the product of a broad strategy that is now being rethought. Japan's regulators cited pressure from headquarters when they sanctioned the bank. Under Mr Weill, Citigroup developed a system of tight-knit top management, which meets weekly to go over the operations of the sprawling global empire in fine detail. The three departures may symbolise a change in direction under Mr Prince. A new team will take over important businesses, and there is little doubt that staying in the good graces of regulators everywhere will be an important part of their brief. There is also little doubt about who is now in control of Citigroup.

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America's new law on cheques

Cheques cancelled

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A half-hearted effort to modernise America's Byzantine payment system

AMONG the less-publicised side-effects of the terrorist attacks on America in September 2001 were growing piles of cheques in banks across the land. Because air traffic was at a standstill, banks were unable to process them. Americans are still heavy users of paper cheques (see chart), and the banks at which they are deposited must send them to those on which they are drawn, perhaps thousands of miles away. Many Americans, indeed, still receive wads of their cancelled cheques with their monthly statements.

Regulators concluded that any system based on scribbles on pieces of paper passed from hand to hand and institution to institution before being returned to their authors is probably inefficient and possibly risky. So a year ago Congress pushed through the Check Clearing for the 21st Century Act (known as Check 21), which is intended to hasten the adoption of electronic processing. It comes into effect on October 28th.

There is a chance that this will hasten change that is going on anyway. Most of the world has long since come to terms with electronic payments, and Americans are hardly unfamiliar with plastic cards and the internet. And for banks, the potential saving from not having to cope with a daily avalanche of paper slips could reach $2 billion annually, according to Prudential Securities, albeit at an investment cost of up to $10 billion. Yet it is hard to be sure that the law will change all that much.

If customers notice any difference because of Check 21, it will be that their bank statements carry photocopies of cheques, not originals. The system producing these copies will be remarkably complex. As now, anyone paid by cheque will deposit it in their bank, to be sent on to various clearing houses, which route the cheque back to the issuer's bank for payment approval and the transfer of funds. However, the new system will allow the bank that first receives the cheque to create an electronic image for transmission through the system. This image can be reconstituted into a paper cheque by the drawer's bank. Banks will no longer have to fly paper cheques across the country, but the new system will be costly too—worthwhile only for fairly large payments drawn on banks far away. Many banks may stick with the old system.

Regulators say that they have not pressed for a more radical change because they do not want to swamp banks with new rules. And if Americans want to use paper cheques, they should be able to. The country's attachment to this means of payment is a long one and, although it is fading, it is doing so slowly.

Partly, cheques have endured because they are a cheap form of documentary evidence of a transaction. Their longevity is also partly explained by America's peculiar banking geography. In most countries where electronic payment networks were quickly established, there were just a few national banks. Until recently, in America banks were confined to small areas. There are still about 15,000 of them. Exchanging bits of paper on a local basis was not too expensive; conversely, now that such a system is in place, creating electronic links between several thousand institutions is not easy.

Banks have also done a good job bringing down the costs of processing cheques. Each one costs just a few pennies, reckons Carl Rutstein, of the Boston Consulting Group. Even the most efficient new systems

would save only about $2 per account, or about 1% of revenues. That is hardly enough to provide a new service, or radically new pricing.

The greatest disincentive, however, is that even though a new electronic system could cut banks' costs, their revenues might fall too. Under the current system, banks can take days, even weeks, to clear cheques. Meanwhile, they earn billions of dollars from this “float”. And lots of cheques bounce, producing plenty in penalty fees. With fully electronic payment systems, settlement could be far faster than it is now; if funds were unavailable, this could be plain almost immediately.

Little wonder, then, that the financial system is in no hurry to modernise. The real pressure for change is not coming from regulators, or banks, but rather from the market: cheque usage has been in slow decline for years. If banks do build electronic networks that are more resilient than the paper-based systems that made them vulnerable in 2001, it will be their customers that deserve the credit.

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The battle at Lazard

Impasse

Oct 21st 2004
From The Economist print edition

A fierce internal struggle is blocking the investment bank's flotation

A FEW weeks ago it looked as if Lazard, an international investment bank of long pedigree, was heading for a buy-out of its controlling shareholders and then for flotation. Now that seems unlikely. The problem is not, as it once was, the holders of the largest blocks of shares, led by Lazard's chairman, Michel David-Weill. They will sell if the price is right, and the $1.25 billion on offer seems satisfactory, although Mr David-Weill has not yet confirmed this publicly (he might soon). The trouble is that Bruce Wasserstein, brought in by Mr David-Weill to run the bank in 2002, seems to have lost control of the transaction among his own colleagues.

Three weeks ago Mr Wasserstein was confident that he was on track. But it appears that he miscalculated badly when he asked each of the firm's 200-odd partners to sign a 15-page agreement that, among other things, would bind them to Lazard for three years and dock their pay by 30% (in order to cut costs before flotation). Around 20 partners refused. But with 90% of partners in favour, what is the worry? Unfortunately for Mr Wasserstein, the recalcitrants include some of Lazard's best-known bankers.

They objected to the big transfer of power to Mr Wasserstein that was implicit in the agreement. And they pointed out that as a group they contribute half of the bank's advisory revenues and one-quarter of its total revenues. Why should they support flotation terms that manifestly reward less productive partners? In fact, some of them argued, was it not madness to think of floating Lazard when such serious management issues are lurking not very far in the background?

This may appear to be a polite discussion among gentlemanly bankers. In fact, strong egos are clashing furiously. The hold-outs include Gerardo Braggiotti, an ultra-smart Italian who is credited with revitalising the bank at home and in Germany, where he poached Ernst Fassbender and Malcolm Thwaites, top men at rival Merrill Lynch. (Mr Braggiotti declined to talk to *The Economist*.) Also among them is reported to be Gary Parr, an ex-Morgan Stanley specialist in the financial sector, and one of the few bankers hired by Mr Wasserstein to have made his mark on Lazard. Mr Parr's financial institutions group contains more than one renegade, as do the utilities and restructuring teams.

Mr Wasserstein and Jeffrey Rosen, a partner based in New York, have been trying hard to end the impasse, using a mixture of threats and proffered compromises. The hold-outs have been offered a new deal under which their pay would not be cut. Instead of a three-year lock-in they would have to agree only to a three-month notice period followed by three months of inactivity. The problem is that potential outside investors are unlikely to be reassured by such tenuous ties between the bank and its main producers.

So, even if Mr David-Weill approves of Mr Wasserstein's overall plan, it is difficult to see how Lazard could find the capital it would need to buy out existing shareholders. And with so much ill-will being generated by the internal bickering, a successful flotation suddenly looks a pretty distant prospect. It is the sort of dysfunctional mess that Lazard is used to encountering and overcoming among its clients. Sorting itself out will be much harder.

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Base-metal prices

The morning after

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From The Economist print edition

Yes, the London market dived—but not really very far

THAT was some dive, wasn't it? Yes, but from where, and to where? On Tuesday October 12th, London spot aluminium closed at $1,842 a tonne; copper at $3,204; lead at $1,000; nickel at $15,713; tin at $9,170; zinc at $1,130. That evening the London Metal Exchange (LME) held its boozy annual dinner. By next day's close, aluminium was down 5.1%; copper 5.0%; lead 3.0%; nickel 12.8%; tin 4.9%; and zinc 4.7%. Cynical journalists gleefully put two and two together, ascribing the fall to the (traditional) hangover and sluggish business, and made five.

The great dive, in fact, had started before the traders ever touched the hard stuff. All six metals had sizeable falls—4.7% for nickel—that Tuesday. And a week later, October 19th, though still well below their pre-dive prices, they closed pretty near to those of four weeks before—and head and shoulders higher than a year earlier, indeed. In sum, the dive was steep, but it didn't really go down far.

Which is all very odd. Why have prices climbed so far these past 12 months? Do prospects for the world economy look hugely better than a year or two back? No. Did analysts and traders take two years to notice the Chinese boom? No. And then, this mid-October, did the possibility of a slowdown in China burst suddenly like a tiger from the undergrowth? Again, no. The one thing that did happen suddenly was the spike in oil prices, taking West Texas oil briefly over $55 a barrel.

So put it all down to the hedge funds, the easy explanation of many market conundrums? No. The reality is simpler. Commodity prices reflect marginal differences; a small gap between demand and supply can mean a large price shift. In copper, for example, January-July this year saw world consumption 8% ahead of output, and stocks, the buffer, “held” at the metal exchanges—not just London—declined sharply. Stocks of all but aluminium and zinc also were tight. Given sporadic interruptions to supply, from strikes and the like, prices could well have risen more than they did.

What about China, responsible for maybe 60% of the rise in demand for metals? Even if it slows, that figure could still be 40-50%, meaning an extra 1.5% in demand for copper, or 2% for nickel and aluminium; slowdown does not mean stop. And the dollar's slide makes rises in dollar terms look larger than they are to users selling their output in, say, euros.

So much for the long metals boom. But then what happened on October 13th? The dive came after some sharp rises in the weeks before, and began, in fact, in China, reaching London thence via sell orders from Shanghai. It gained speed from the tendency of speculators to follow the market or, if they have long positions, to have stop-loss sell orders in place. Even so, why was the dive so fast? There the LME dinner may indeed have played a role. The next morning's trading is usually quiet. Add some solid sell orders in a thin market, says Peter Kettle, of CRU International, a consultancy, and—not that he suspects any plot—“if you wanted to drive prices down, that would be the day to do it.”

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Technology and futures exchanges

Wired

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The costs and benefits of technological advance in futures trading

PHOTOGRAPHERS and visitors love the hand-waving, shouting and colour in the “open outcry” pits of Chicago's futures exchanges. Even in the new world of online trading, though, there is character—in the shape, for example, of Harris Brumfield. Once a Mississippi catfish farmer, Mr Brumfield became a trader, made a fortune, and is now head of Trading Technologies, a provider of trading software, in which he has a controlling stake. He claims that his company's order-entry platform handles more than half the electronic volume on the world's big four futures exchanges—the Chicago Board of Trade (CBOT), the Chicago Mercantile Exchange (CME), Eurex and Liffe.

Futures trading is booming, and technology plays an increasing role in its success. Eurex, the top exchange in Europe, launched a fully electronic subsidiary in America this year, though with disappointing results so far. The CBOT, concerned that its prized Treasury contracts were under threat, fired back with improved technology of its own, reduced transaction costs and a new common clearing link with the CME. The CME this week announced the billionth trade on its Globex electronic trading platform. In the third quarter, electronic trading was 61% of total volume, up from 52% in the second.

Independent technology firms are both driving and benefiting from this growth. Besides Trading Technologies, which expects revenues to be about 60% higher this year than in 2003, GL Trade, Realtime Systems, FFastfill and EasyScreen are among those with well-regarded products.

But technological advance is not always smooth. One topic at a big annual industry conference in Chicago next week will be how well electronic order-routing and trade-matching systems are coping with rapid growth. With more futures products coming online, computer servers are taxed by added traffic. More complex strategies take longer to calculate and match with corresponding trades. There is grumbling about delays. David Norman, of the Illinois Institute of Technology, contends the bottlenecks are getting worse. “The systems can't handle this volume of data,” contends Mr Norman. “It's a finite situation and it's going to break.”

Some end-users, such as big banks, blame the software. The software firms retort that if users want speed, they must keep their own networks upgraded: 90% of Trading Technologies' front-end trading software sits on customers' networks and only 10% on its own. Big brokerages use several internet service providers to ensure speedy trading.

The exchanges may be booming now, but Mr Norman predicts that over-the-counter markets, which cut out the exchange as middleman, will flourish at their expense. And the same technology that has been driving the exchanges' growth has given more power to their customers, who can now trade products on more than one exchange. Multi-exchange trading platforms are in great demand.

Yet Mr Brumfield (whose firm is embroiled in a patent dispute over business processes) sounds a little nostalgic for his former days in the open outcry pits. “I loved the floor,” he drawls: “the camaraderie, the competition, the pushin' and shovin'.” Not even the best technology can replicate that.

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Economics focus

History and the internet

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Will charging based on content come to the internet? The history of transportation offers clues

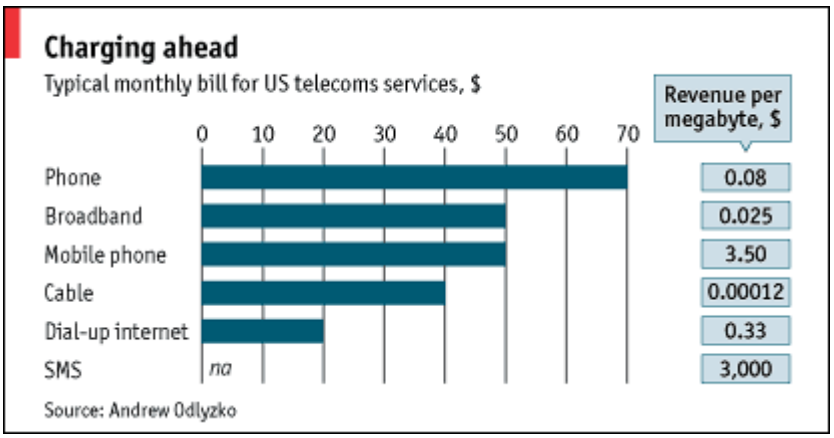
ON THE Beverley Beck waterway in northern England in the early 18th century, tolls were the same for almost any cargo: four pence per ton. In 1744, however, came a dramatic change. Thenceforth, shippers had to pay 12 pence per ton to send iron or lead, but six pence for the same weight of timber, stone or salt. There have been similar developments in transport networks many times since, be they railways, roads or telephone systems. Charges are usually uniform at first, but later, network operators introduce more complicated price structures based on what is carried. Sometimes these are based on cost. Often, though, they reflect price discrimination: charging based on differences in customers' willingness to pay.

So far the internet has been free of such discrimination. Indeed, some believe that is one of the chief reasons for its success. The system was designed to be decentralised and "open": it carries all digital traffic, be it song or spam, for the same price. Yet many telecoms companies, which control the wires over which most consumers are connected to the internet, want to change this. They claim that charging different prices for different uses, such as telephone calls or downloading films, will give them the means and incentive to invest in better-engineered networks. So will price discrimination catch up with the internet too?

In a recently published paper,* Andrew Odlyzko, a professor at the University of Minnesota, divines lessons from the history of transportation to explain the telecoms industry's attraction to price discrimination, and what it may mean in future. Of course, in general telecoms, companies already exploit variations in what customers are willing to pay for digital bits, depending on whether they take the form of a cable television programme or an SMS text message (see chart). On the internet, however, charging according to content would mark a big change.

In transport, this has been the norm for centuries. On England's canals, prices by cargo varied widely by the 1790s, according to both content and ultimate use: for instance, transport was free for manure for adjacent fields and stone for road repairs. To some extent, regulation limited canal operators' ability to exploit their market power: until 1845, they were barred from offering transport service themselves, in a "structural separation" of the sort sometimes proposed in telecoms today.

Turnpikes followed the same pattern. "Traditionally, the King's Highway was open to all," Mr Odlyzko notes. "The problem was how to keep it in good condition." In 1663, the first turnpike was authorised to collect tolls. Though protests were frequent and occasionally violent, turnpikes flourished. Later, complaints over canal prices helped the development of the railways. On the rails, too, wear (and thus maintenance costs) depended on weight, yet costs were soon based on what was transported. Eventually, price differences led to an outcry and, ultimately, regulation.



To some extent, price discrimination seems to have been beneficial. It allowed the Beverley Beck waterway, which had been making a loss, to stay in business. Early turnpike tolls led to improved road conditions so that transport eventually became cheaper. On the other hand, price discrimination causes resentment: many people think charging on the basis of willingness to pay unfair. It also encourages evasion, and requires frequent inspections to ensure that people pay the correct price.

Road map for the internet

On the net, discrimination might mean one price for web and e-mail traffic, another for instant messaging and still others for telephone calls, music and films. Is it likely? Mr Odlyzko hopes not, although history strongly suggests that the temptation exists. He thinks that price discrimination might not be in telecoms companies' interests after all. Unlike on canals, toll roads and so forth, internet capacity is abundant. Internet service is therefore a commodity. Simpler, flat-rate pricing, he argues, is likely to increase usage: discrimination would turn some users away.

Indeed, he says, distinguishing between different types of traffic would mean so much technical rejigging that the openness of the internet would be destroyed. Because the internet is decentralised and simply priced, it is cheap for many other networks—run by big companies, universities and telecoms firms—to connect to it. This in turn gives the internet a great capacity for innovation. Price discrimination could jeopardise all this. “While content delivery does lend itself to a closed network, connectivity does not. Open networks are likely to win because they can attract more revenues from users,” Mr Odlyzko says. Is this wishful thinking? History, as he shows, is full of examples of successful price discrimination. The telecoms companies may yet think it worth a try.

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* “The evolution of price discrimination in transportation and its implications for the internet.”*Review of Network Economics*, vol. 3, issue 3, September 2004. Online at: www.rnejournal.com/articles/odlyzko_RNE_sept_2004.pdf

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Human evolution

Girl power

Oct 21st 2004
From The Economist print edition

Alamy

Single mothers are more likely to have daughters

ALL over the world, more boys are born than girls. Evolutionary biologists believe that this is because boys (and, indeed, males in general) are more likely to die at a given age than are their female contemporaries. The imbalance at birth thus means that the sex ratio balances at the age when people are reproducing. But for decades there has been a puzzling trend in the boy:girl ratio. In Britain, as well as in the United States and Canada, the proportion of boys being born is dropping. No one knows why, although it has been suggested, somewhat controversially, that the trend is due to chemical pollutants that are mimicking the effects of sex hormones.

And yet there is another recent trend that may have something to do with it. During the same period, the proportion of single mothers has been increasing. The reasons for this are less puzzling, but as the Italian nominee to the European commission, Rocco Buttiglione, found out this week when he apparently suggested that single mothers were not very good as parents, it is no less controversial. The question is, could the two trends be linked? Can household arrangements affect the human sex ratio?

According to Karen Norberg, of the National Bureau of Economic Research in Cambridge, Massachusetts, they can. In a review of data from almost 60,000 American families, Dr Norberg found that the chance of a woman giving birth to a boy rather than a girl is higher if she has been living with a man before the child was conceived. To be specific, for parents who were living together, boys were born 51.5% of the time, while when the parents were not cohabiting only 49.9% of births were male. This difference may seem small, but statistically it is highly significant, which suggests it is the result of evolution. Dr Norberg's paper was published this week in the *Proceedings of the Royal Society*.

Actually, as with so much else in biology, Charles Darwin got there first. In “The Descent of Man”, he referred to studies showing that among children born out of wedlock there were more girls than boys. Dr Norberg's work reinforces the point, and also shows that it is not formal marriage, but actual cohabitation, that is the decisive factor. What neither Darwin's nor Dr Norberg's work shows, though, is why.

Sons and lovers

There are some clues. In work on other mammals, researchers have found an association between hormones, the frequency of copulation, and the sex of the offspring. In other words, there is a way the

body might “know” if it is cohabiting with someone by the amount of sex it is getting, since copulation changes the levels of various hormones. It is also known that a woman's hormonal motivation to have sex is highest on the day of ovulation, and that sex on that day is more likely to result in a girl. Couples who live apart, and therefore probably have intercourse less often, may be more likely to do so when the motivation is highest—resulting in a girl.

This chain of reasoning, though, provides only what workers in the field call a proximate cause. What is needed for a complete explanation is an ultimate—evolutionary—cause.

It is easy to speculate. Perhaps same-sex children are easier for a lone parent to rear. Perhaps parents pass on different kinds of benefits to same-sex offspring and opposite-sex offspring. Perhaps a father helps his son to learn sex-specific skills, as in bird songs. Perhaps boys are simply more costly to raise than girls, and would thus overtax the resources of a lone parent. However, a more controversial possibility is that—in a Darwinian sense only—Mr Buttiglione is right that two parents are sometimes better than one.

It is well established, in both humans and other species, that successful males have lots of offspring, while unsuccessful ones have few or none. Females, by contrast, show a smaller range of reproductive output, with most having some offspring, but none having as many as the most successful males. The upshot is that it makes evolutionary sense to have sons when circumstances favour them becoming big, strong, clever and handsome (and therefore attractive to women), but when they do not, it is better for a woman to have daughters, most of whom will find a mate even in tough times. That way, a woman will maximise the number of grandchildren she has. In the case of humans, circumstances favouring the raising of strong, healthy children could include having two parents around, since humans are unusual among mammals in that fathers are often involved in parental care.

Of course, even if this evolutionary explanation of Dr Norberg's result does turn out to be correct, it probably does not carry any lessons for the modern world. Such biological patterns would have been established hundreds of thousands—or possibly millions—of years ago. Bringing up children alone in a rich, industrialised society is a rather different proposition from bringing them up in a hunter-gatherer band, and there is no reason to suppose they would be at a disadvantage now. Except, perhaps, that with a surplus of women around, it will be even harder than it is today for a girl to find a suitable husband when she grows up.

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Flood control

A good soaking

Oct 21st 2004
From The Economist print edition

Surprisingly small amounts of vegetation can help prevent flooding

NOT even in Spain does the rain fall mainly on the plain. The world over, it falls mainly in the hills and drains away into streams and rivers. But when it rains heavily in the hills, the surge of water that results can overflow riverbanks on low-lying land downstream. With northern Europe's climate likely to become wetter as a result of global warming, the European Environment Agency is warning of more, and worse, such flooding to come.

Protecting towns and cities on these lowland floodplains is an expensive business. In Britain alone, over £400m ($725m) a year is spent defending the most vulnerable communities from river and coastal flooding using embankments and other structures. A better and more cost-effective approach may be to try to slow the rate at which rainwater falling in the hills drains into rivers in the first place, thereby reducing damaging floodwater surges.

That vegetation slows down the rate at which water drains into rivers is commonplace. But data on how effectively different sorts of vegetation, other than mature forests, do this are surprisingly sparse. However, Howard Wheater, of Imperial College, London, and his colleagues are attempting to change that. And their early results suggest that managing land to control drainage could yield rapid dividends.

Dr Wheater and his colleagues have been working in the hilly catchment of the Severn river in mid-Wales. This is sheep country, and on sloping, heavily grazed turf the researchers found that the “soak-in” rate was close to zero. In other words, all of the rain ran quickly off the surface into nearby streams. No surprise there. In less heavily grazed pasture, the soak-in rate averaged 10cm (4 inches) an hour; good, but not spectacular. However, in areas planted with young, broad-leaved trees—and with no livestock grazing—it was up to an impressive 80cm an hour when the trees were only seven years old. Indeed, even two-year-old trees made a perceptible difference.

This research suggests that planting trees, and even converting billiard table-like swards of closely cropped pasture back to bushy moorland, could slow the rate of run-off into streams and rivers much more rapidly than previously suspected. And it would, as a bonus, boost the biodiversity of currently desolate hill land. In Britain, and in much of the rest of upland Europe (to which Dr Wheater thinks his results will be equally applicable), sheep farming is in any case kept going largely by subsidies. Halting these subsidies, even if it meant having to pay off these farmers once and for all, would bring blessings to town and countryside alike.

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Vaccines

Cool technology

Oct 21st 2004
From The Economist print edition

A trick from nature could help vaccinate millions of poor children

IMMUNISATION is a pain, and not just for those lucky enough to get a shot in the arm. Vaccines themselves, which are made largely out of protein, have to be refrigerated to prevent them going off. Keeping vaccines at the right temperature on their long journey from the factory in, say, Europe to a village in sub-Saharan Africa is a costly and complex business. Experts estimate that almost half of all vaccine doses are wasted because of temperature damage, which is cold comfort to the families of the 2m children in poor countries who die every year from measles and other vaccine-preventable diseases.

Cambridge Biostability, a British biotechnology firm, may have found a solution by borrowing a trick from nature. Some plants, and even insects, are able to survive hundreds of years in suspended animation through a process called anhydrobiosis. Faced with drought, their tissues produce sugars which turn into a syrup as they start to dry out, eventually forming a sort of glass which preserves them perfectly. Add water, and these organisms spring back to life.

Scientists at Cambridge Biostability have adapted this technique to vaccines. First, they coat clusters of vaccine molecules with a sugar spray. Then they dry them in such a way that they form tiny glassy beads. These sugar “microspheres” are then suspended in a non-water-containing liquid, which keeps them intact until they are injected into the body. There, the sugar dissolves in the blood and the vaccine is released. The advantage of this is that the microspheres can survive temperatures as high as 55°C for months, conditions that destroy normal vaccines.

Tests in mice and guinea pigs have shown that such vaccine microspheres are as safe and effective as conventional shots. The developers point to other advantages, too. Even though conventional vaccines are transported as dry powder rather than in solution, they still need to be dissolved in water before injection. That can lead to bacterial contamination or worse if the wrong sort of liquid is used. The new vaccine microspheres, on the other hand, can be injected straight into the body, eliminating those sorts of mistake and with them the need for the preservatives found in ordinary vaccines.

In addition to that, because the sugar-glass coats the vaccine molecules and thus isolates them, various vaccines in their own microspheres can be mixed together in a single jab. This is something that is hard to do with conventional shots, since different vaccine molecules will react together unless insulated from one other.

Cambridge Biostability, with support from Britain's Department for International Development and the Programme for Appropriate Technology in Health, an American not-for-profit group, is working on a sugar-glass version of a combined shot against five nasty childhood diseases, including diphtheria and meningitis. The next step is to test the new formulation in human volunteers, which will be done in India by the firm's commercial partner, Panacea Biotec, based in Delhi.

If all goes well, the vaccine could be on the market in three years' time. By eliminating the need for refrigeration, the technology could save up to $300m a year in global vaccine costs, which means another 10m poor children could be protected. Moreover, the technique may also work with other protein-based drugs, such as insulin. Sugar-glass could one day prove one of biotech's sweetest successes.

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Memory chips

Going up

Oct 21st 2004 | SANTA CLARA
From The Economist print edition

The latest memory chips are built in three dimensions

WHEN land is expensive, build upwards. That, more or less, is the motto of Matrix Semiconductors, a firm based in Santa Clara, California.

Most computer chips are built by starting with a piece of silicon, putting down a layer of transistors to do the actual work, and then adding layers of wiring on top to connect the transistors together. That is fine when a chip is relatively simple. But the more transistors it has, the more complicated the wiring becomes.

One way to simplify the wiring would be to organise the transistors into layers—in effect, building a multi-storey chip. But, while that solves one problem, it creates another. For making such a multistorey chip is hard. Matrix, though, has managed it. And it has done so by borrowing an idea from the manufacture of liquid-crystal-display screens.

Existing chips are laid down on single crystals of silicon, a material in which small quantities of other elements can be mixed to create an electrical semiconductor that is the basis of most electronic devices. That is fine for small things, such as chips. But growing large individual crystals of silicon for devices such as computer screens would be prohibitively expensive, so screenmakers have learned to make do with inferior, but cheaper, polycrystalline silicon. Matrix's business is based on the insight of Tom Lee, one of the firm's founders, that such polycrystalline silicon can be laid down on a chip by the normal manufacturing processes used to add the transistors and wiring to such chips. Such polycrystalline layers can be used as the semiconducting basis for extra layers of transistors, and the transistors in those layers can then be linked up between the layers, as well as within them.

Matrix's first product is a memory chip—an easier design and manufacturing task than a full-blown microprocessor chip of the sort that provides the guts of a computer. The principal advantage of matrix's memory chip is cost. The 64 megabyte version, which can hold about two hours-worth of music, costs less than $10. That is well under a third of the price of comparable flash-memory cards. The principal disadvantage is that, unlike flash cards, it cannot be wiped clean for reuse. Matrix's chips can record data only once.

For many applications, though, that need not matter. Most CDs and DVDs are used this way and a chip, while having nothing like the storage capacity of such optical disks, has the advantage that it does not require a disk-drive to operate it.

Matrix's first openly declared customer is Mattel, a big American games and toys manufacturer. It is using the 3D chips to hold “content” for its new Juice Boxes—cheap personal audio/video players aimed at children aged between eight and 12. Mattel, Matrix's spokesmen claim, is but the first of many firms that will begin selling products built around Matrix chips in time for Christmas.

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Following directions

D'oh!

Oct 21st 2004
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Genesis had its switches in backwards

IT DOESN'T take a rocket scientist to follow simple directions: “this end up”, say, or “fragile, handle with care”. Indeed, the latest news from NASA, America's space agency, suggests that a rocket scientist might be the last person you would want.

In September, *Genesis*, a NASA spaceprobe that had been sampling the solar wind, returned to Earth. The mission looked like a publicist's dream—if not for the basic science being done, then certainly for the theatrical method of recovery. The plan was for *Genesis*'s parachute to be snagged by a hook dangling from a helicopter flown by a Hollywood stuntman.

The bad news was that the parachute did not open. The worse news, according to a preliminary statement issued this week by NASA investigators, is that the reason it did not open was that the switches designed to trigger its release were fitted backwards. (The investigative team is still tracing the branches of a “fault tree”, and hopes to issue a final report in late November.)

The good news is that many of the sensitive wafers which had been collecting particles of solar wind (charged atoms and molecules that stream out of the sun) survived the subsequent crash intact. The scientists behind *Genesis* consider the mission a success.

Luckily, *Stardust*, a sister mission to *Genesis* which gathered bits of a comet in the same way, and is due back in 2006, seems to have its switches in the right way up. At least, it does according to a review of *Stardust*'s construction undertaken as the *Genesis* revelations came to light.

Both *Genesis* and *Stardust* were built by Lockheed Martin, a defence and aerospace contractor. Among Lockheed's other projects was *Mars Climate Orbiter* which, in 1999, did not so much orbit Mars as slam into it. That time, Lockheed's rocket scientists confused yards and metres. Earlier this month, the firm was given a $330m contract by NASA to design a robotic maintenance mission for the *Hubble* space telescope. *Hubble*, too, was built by Lockheed, but its own near-fatal flaw, an improperly shaped mirror which crippled the telescope for three years, was the fault of the mirror's manufacturer, Perkin-Elmer. Rocket scientists, it seems, are everywhere.

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About sponsorship

Investigative journalism

J'accuse

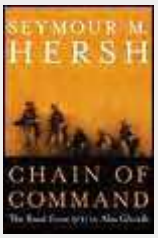
Oct 21st 2004
From The Economist print edition

AP

A searing critique of the Bush administration

FOR over three decades, Seymour Hersh has been a pain in the neck to American presidents and he is proving no less of one to George Bush. Mr Hersh's dogged style of investigative journalism has produced brilliant scoops—he revealed the 1968 My Lai massacre in Vietnam, and this year in the *New Yorker* he did much to uncover the story of American torture at Baghdad's Abu Ghraib prison. As important, his writing offers a kind of real-time alternative history to the official version of events. His latest book is a blend of articles from the *New Yorker* since the September 11th attacks along with new material. It makes disturbing reading. Mr Hersh portrays an administration whose top officials are not just duplicitous—a charge which can be laid against plenty of their predecessors—but gravely incompetent, blind to facts they dislike, determined to ignore advice they do not wish to hear and lamentably ignorant about large chunks of the world.

Chain of Command
By Seymour M. Hersh



HarperCollins; 416 pages; $25.95. Penguin/Allen Lane; £17.99

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Amazon.co.uk

Such criticism that appears in the thick of a presidential campaign is bound to be attacked as biased, or politically motivated. Mr Hersh is not coy about his view that the Bush administration has mishandled both the war on terrorism and the invasion and occupation of Iraq. But the sheer quantity of detail makes the book impossible to dismiss as mere polemic. Mr Hersh's reporting is based on anonymous sources, something the Pentagon pounced on in an extraordinary press release before the book's release. Yet unlike Bob Woodward of the *Washington Post*, his chief American rival as an investigative journalist, Mr Hersh attributes almost every piece of information to an individual, and he describes that person's position or experience in some way. Mr Woodward's two books covering the same period, “Bush at War” and “Plan of Attack”, have plenty of dramatic flourish and recreated conversations, and are certainly entertaining. However, the sober tone of Mr Hersh's book, the careful marshalling of evidence and constant attributions: all lend it an undeniable credibility. What is more, the author spends almost as much time quoting senior officials defending the administration's policy and actions as he does others criticising them. Readers get to hear both sides of the story.

The picture that emerges from this account is perhaps a familiar one: that of a Bush administration as much at war with itself as with al-Qaeda or Saddam Hussein. Yet Mr Hersh's narrative is less about the battle between the Departments of State and Defence, which has been well charted, than that between the top layer of political appointees at the Pentagon and the White House and the senior and middle-ranking career officials in the military and intelligence services. If Mr Hersh is to be believed, a growing

crowd of serving and retired officials despair at the blunders and the opportunities missed by Mr Bush and his closest advisers—in Iraq and Afghanistan, in the hunt for Osama bin Laden and the rest of al-Qaeda, in efforts at controlling nuclear proliferation, in dealings with Saudi Arabia, Syria and Iran, and in trying to improve homeland security.

The Bush administration's response to the torture committed by American soldiers at Abu Ghraib illustrates a pattern of behaviour described again and again in Mr Hersh's book (even though only about a fifth of the book actually deals with the story of Abu Ghraib). Soon after September 11th, Mr Bush issued a secret presidential order setting up covert teams of commandos to scour the globe to capture, interrogate and kill terrorists. Such teams were authorised to operate outside the law. Mr Bush later issued an order declaring that any captured al-Qaeda or Taliban fighters would not be deemed prisoners of war covered by the Geneva Conventions, and that in the war on terror he had the right to suspend the conventions whenever he wished. Donald Rumsfeld, Mr Bush's defence secretary, expressed repeated disdain for the conventions.

Teams of lawyers within the government, most of them political appointees, formulated new legal policies that redefined torture as limited to the pain equivalent to “major organ failure or death”. They argued that in any case the president, as the commander-in-chief in the war on terror, could not be bound by international treaties or federal laws forbidding torture. When interrogations of prisoners at Guantánamo yielded little in the way of intelligence, Mr Rumsfeld authorised new, harsher interrogation techniques. The general who developed these techniques was sent to Iraq, to “improve” interrogations there as well, since Iraq's insurgency was growing, and the American forces there had little knowledge of whom they were fighting. Torture and abuse at Abu Ghraib soon became routine.

Before all this became public, repeated complaints about what was happening at Abu Ghraib and Guantánamo were made to senior administration officials by the International Red Cross, human-rights groups, a number of CIA and military officers, and even by a group of Pentagon lawyers. When photographs and videos of the torture at Abu Ghraib fell into the hands of Mr Hersh and an American television station last April, Mr Rumsfeld first brushed the issue aside, then professed himself shocked. Mr Bush denied all knowledge and blamed some bad apples.

A few low-level American guards stupid enough to have themselves photographed torturing and humiliating prisoners have been charged. A few dozen others have been reprimanded or discharged. No intelligence officers who conducted the interrogations, nor anyone higher up the chain of command, have been charged. Official investigations have been launched. None has blamed any senior official. Asked about the clear evidence of widespread torture, Mr Bush said simply that “the instructions went out to our people to adhere to the law.” He later declared that “freedom from torture is an inalienable human right” and that the United States “remains steadfastly committed to upholding the Geneva Conventions.”

It is this brazenness which amazes Mr Hersh, a man who has spent a lifetime exposing the deceptions of politicians. And yet even for such a veteran reporter, there is something puzzling, even terrifying, about Mr Bush. When he denies, or just ignores, a fact, is he lying, or does he simply say whatever he finds convenient, and then come to believe it? Mr Hersh asks the question, but he cannot answer it.

By Seymour M. Hersh.
HarperCollins; 416 pages; $25.95. Penguin/Allen Lane; £17.99

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South Africa

From one nationalism to another

Oct 21st 2004
From The Economist print edition

THE first nine chapters of this book are a lucid and engaging romp through the first 3.5 billion years of South African history, from blue-green algae to Nelson Mandela's release from jail in 1990. But it is the last chapter that really makes the book worth buying. R.W. Johnson is a historian, but also a polemical journalist, and he writes with most passion about the present.

He provides a robustly liberal critique of the new South Africa. He applauds the end of apartheid as much as anyone, but frets that the new black elite has learned bad habits from the old regime. Not the worst habits—they do not bulldoze homes or torture dissidents. Yet the ruling African National Congress (ANC) seems to regard the old National Party's use of racial discrimination and state patronage to create an Afrikaner middle class as a model to emulate, with blacks substituted for Afrikaners.

“Apartheid bureaucrats” were expensively retired to make room for blacks. This was done so fast—by 2000, blacks held 72% of civil-service jobs—that “the result in one ministry after another was a large and progressive loss of capacity so that the government, having promised to deliver a great deal more than its predecessors, systematically disabled the administrative machine on which it depended for delivery of anything.”

Mr Johnson also frets about the ANC's authoritarian tendencies. He shows how South Africa's voting system reinforces these. Parliament is filled by proportional representation from party lists. Any member who bucks the party line can be tossed out. The president, Thabo Mbeki, can in effect handpick most parliamentarians and provincial assemblymen, all provincial governors, and the top civil servants. This power, in the hands of a party whose number two boasts that it will remain in office “until Jesus comes back”, is unnerving.

South Africa's black elite has grown much wealthier in the past decade, thanks in part to patronage, while poor blacks have grown poorer. Restrictive labour laws have destroyed jobs, while the government has done scandalously little to tackle AIDS. Mr Johnson notes that Mr Mbeki's long refusal to give cheap anti-AIDS drugs to pregnant mothers caused 45,000 babies to be infected in 2002—far more lives than were lost in the whole period of apartheid.

South Africa: The First Man, The Last Nation.
By R.W. Johnson.
Weidenfeld & Nicolson; 244 pages; £16.99

South Africa: The First Man, The Last Nation
By R.W. Johnson

Weidenfeld & Nicolson; 244 pages; £16.99

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About sponsorship

South Korean cinema

New wave

Oct 21st 2004 | BUSAN, SOUTH KOREA
From The Economist print edition

Young, accomplished and original

A certain man and his Samaritan

EVERY ten or so years, a new country seems to take the lead in ground-breaking cinema. After the second world war, Italian neo-realists had the field; in the 1960s it was the French new wave. More recently, in the 1990s, China dominated before being edged out by Iran. And now South Korea has the baton, an idea reinforced at the Pusan International Film Festival this month.

South Korean films look different from others in Asia. They shun Hong Kong's demented editing, and they seldom have the self-conscious and arty camerawork that can plague films from mainland China. Almost all have the polished cinematography and the production qualities that once were the mark of Hollywood.

It is a youthful cinema. With the exception of one veteran, Im Kwon-taek, whose recent “Low Life” was his 99th picture, the country's top filmmakers are relative newcomers. Though young, their work shows impressive range.

“R-Point” is set in Vietnam and focuses on a Korean unit drafted into the jungle to locate the survivors of a missing platoon sending back walkie-talkie messages from the dead. Part war film, part horror movie, it is quite unlike any conventional Vietnam picture.

“R-Point” is mainstream movie-making with a difference. Kim Ki-duk, who directed two films this year, is an art-house filmmaker also with a difference. Until last year, he was known for violent, sordid work. Then he made the elegiac “Spring, Summer, Autumn, Winter...and Spring”, with Buddhist themes. Now he has attempted a similarly idiosyncratic perspective on Christianity.

In “Samaritan Girl”, two schoolgirls take up prostitution for material ends. One dies and her friend embarks on a soul-redeeming mission to pay back the money she took from clients. Muddled thinking or an unconventional take on the good Samaritan? Either way, it is wholly original.

Mr Kim's second film, “3-Iron”, is equally unclassifiable. A squatter moves into a deserted flat and befriends a woman fleeing her abusive, golf-fanatical husband, who uses a three-iron as a weapon. Almost free of dialogue, the relationship between the characters grows increasingly bizarre, as it settles into a threesome in which the husband is simply unaware of the presence of the intruder. Though more of a *jeu d'esprit* than “Samaritan Girl”, it confirms the director as a polished stylist.

Hong Sang-soo has a gift for titles. In 2000 he coined “Virgin Stripped Bare by her Bachelors”. This year comes “Woman Is the Future of Man”. The film appears at first to be about very little, as two friends meet and reminisce about the girl they both once dated. Gradually male machismo is undermined by feminine wiles, and it is the no-nonsense woman who makes fools of them both. Sophisticated and witty, it is only a matter of time before Hollywood acquires the remake rights.

Just as engaging is “This Charming Girl”, a first feature by Lee Yoon-ki shot entirely with a hand-held camera. The heroine is a post-office worker processing registered mail. She says little, masking emotional crises buried deep in her past. Then, one day, she summons the courage to invite a regular customer to dinner. When he stands her up and offers a lame excuse, she has to decide whether to

believe him. The film ends with this, for her, momentous decision left unresolved. The long final shot, in which the audience is invited to write its own ending, is hypnotic.

The year's finest film is a documentary called “Repatriation”, shot over ten years by Kim Dong-won, about the imprisonment and eventual release of North Korean “spies” arrested in South Korea during the 1950s; one of them reached the Guinness Book of Records for the longest-ever prison sentence served. Unlike fellow prisoners of war, who recanted, often under torture, these ones never renounce their communist allegiance. Though the film is clearly sympathetic to the old men, it recognises that upon repatriation to North Korea they became gullible tools of a regime that had long ago perverted the socialist ideals that had sustained them in captivity. This is clear-eyed filmmaking of a high order, putting South Korean cinema very firmly on the map.

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Dr Hirst's cabinet

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Nobody went to Notting Hill's Pharmacy restaurant for the food, but rather for the affirmation of being part of Damien Hirst's hip take on the ephemeral. A prescription-counter bar, aspirin-shaped stools and staff in medical gowns by Prada: the sense of eating in a chemist's was, said Mr Hirst, a reflection of a powerful belief system by which people put their faith in drugs. Yet the venture lost money, staff went unpaid, and the restaurant closed a year ago.What the restaurant lost in life, it has made in death. This week Mr Hirst became the first artist ever to auction his own work—Pharmacy's contents. The sale at Sotheby's was crammed with bankers, socialites and shaggy-haired youths. It raised over £11m ($20m), including £4,000 for a pair of Martini glasses (estimate: £50-70) and £1.2m for a cabinet called “The Fragile Truth”. To paraphrase H.L. Mencken, no one went broke underestimating the intelligence of the British art-buying public.

AP

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About sponsorship

Man Booker prize

Sitting in judgment

Oct 21st 2004
From The Economist print edition

As one of the judges of this year's Man Booker prize, The Economist's literary editor, Fiammetta Rocco, read more than 50,000 pages of fiction—and learned a thing or two about contemporary novels

AFP

His good fortune

THE Man Booker prize, which was awarded this week to Alan Hollinghurst for “The Line of Beauty”, has become the most famous and, for that reason alone, the most important literary prize in the world. It is presented each year for a novel written in English. Entry is restricted to authors from the Commonwealth and Ireland, but the results are scrutinised far beyond. The winner is announced after a series of signals that are as minutely examined as any produced in Rome.

This year, the first cull—the longlist of 22 books—was reported on national radio in Italy, Germany and the Netherlands. The six-book shortlist, announced a month later, was beamed the world over on CNN. In Mumbai, an exhibition has been devoted entirely to the prize; in Toronto, a front-page headline declared “Canadians Out of Booker Race”, while an editorial in Edinburgh fulminated against the judges' alleged anti-Scottish bias.

The reason for such close attention—and such hypersensitivity—is that no other prize is quite as capable of transforming a writer's fortunes, or those of the publisher. Who, other than his creditors, knew before last year that an Australian rapscallion called Peter Finlay also wrote under the name D.B.C. Pierre and that these initials stand for Dirty-But-Clean? Since winning the £50,000 ($90,000) prize in 2003, Mr Pierre's “Vernon God Little” has sold nearly half a million copies in Britain alone and been translated into 30 languages. “The Life of Pi”, which carried off the prize in 2002, has sold 1.75m copies. As Graham Swift says, having won the prize himself with “Last Orders” in 1996: “The Booker is special...Prizes don't make writers and writers don't write to win prizes, but in the glut of literary awards now on offer, the Booker is the one, if we're completely honest, that we most covet.”

More than 100,000 books are published in Britain each year, virtually the same number as in America, which has five times the population. Of those, 10,000 will be novels, the vast majority of which will remain unread and unknown, many never even making it into the major bookshops. In such a competitive market, therefore, the various laps of the Booker race offer a tiny few the chance of garnering a little individual glory, glory that is immediately reflected in the bottom line.

When Picador learnt that it had two books on this year's Booker shortlist, “The Line of Beauty” and “The Master” by Colm Toibin, it ordered an additional print-run for each book of 15,000 copies. Both authors had sold about 13,000 copies since their books were published last spring. Yet in just three weeks after the shortlist announcement, they sold another 60,000 copies between them. On the morning after the announcement of the winner, Picador ordered another 30,000 copies of “The Line of Beauty”. And that was just for the British hardback market.

Winning the Man Booker prize also guarantees sizeable paperback sales and considerable further spin-off in terms of global sales of books, future publishing contracts and film and television rights. But with so much money at stake, it is easy to forget the readers. How are they to know which of the myriad books published each week are actually any good?

Few people nowadays rely on reviews. Small booksellers who might once have made it their business to get to know their clients' individual taste are virtually

Few people

extinct. Meanwhile, whether a book is prominently on show or not in one of the big chains hangs entirely upon how much the publisher has paid for the display. It costs more to place a book in the front of a shop than at the back, and yet more to have it in the window. Visibility, therefore, has nothing to do with quality. Indeed, one of the most prominent novels published this year, Louis de Bernières's “Birds Without Wings”, which the publisher promoted particularly heavily because of Mr de Bernières's previous success with “Captain Corelli's Mandolin”, turned out to be one of the most disappointing. So accepting the commission to be a Booker judge is one way of offering readers a service.

nowadays rely on reviews

The call to arms, when it comes, is pointedly low-key and English. “I am telephoning to ask”, a thin reedy voice said to me last January, “whether you might be interested in considering the possibility of being a judge of the Booker prize this year.” You bet!

Every British imprint may submit two books published in the last year. In addition, any author who has previously been shortlisted may also send in a new work, and the judges must call in at least another eight books. The result was a minestrone soup of themes, treatments and interests. Unhappy families featured prominently; so did alcohol and absent fathers. The music of Bruckner was mentioned more than once, and a quantity of Italian food was ruined either by a disgusting liquor or by an exploding espresso machine.

Reading 132 books in 147 days is like taking a course in kick-boxing; you quickly lose any flabby concentration and wishy-washy standards, becoming fitter and leaner and more demanding. In the process, you learn a great deal about why so many novels—even well written, carefully crafted novels as so many of those submitted were—are ultimately pointless.

A great deal is made of the transforming power of literature, but what does it take to become a transformer? Writing a novel as fine as “The Line of Beauty” or “The Master” requires skill, but more than that it takes courage and immense clarity of vision. In some books, such as Gail Jones's “Sixty Lights”, those attributes show through most obviously in the strength of a single character who lingers with you long after you have put the book down. In others, like “A Blade of Grass” by Lewis DeSoto or Justin Haythe's “The Honeymoon”, it is the single moment in which the whole tension of the book is shattered, or in “Becoming Strangers”, the only book to have been voted on to the longlist by all five judges, it is Louise Dean's astringency of language that makes you wince—and then read on.

And then the author's vision must stay clear until the very end. All too many of this year's books began well, but then got lost. No book with a poor beginning ends up improving. By contrast, Nicholas Shakespeare's “Snowleg” and Ronan Bennett's “Havoc In Its Third Year” both started strongly and got better and better, and leaving them off the shortlist was particularly hard.

The third requirement, in addition to courage and vision, is about language. In order to capture a reader, an author must first duel with them and force them to submit to the writer's vision. Nowhere is a writer's guile and weaponry more finely honed than in their choice of words and metaphor. Here, more even than in the ability to draw a character, more even than in the skill needed to shape a plot, is where the difference between good and great can be seen. It sometimes took Gustave Flaubert a week to write a paragraph that pleased him, and with good reason. Mr Hollinghurst was one of the finest of wordsmiths this year, but there were others too whose work was lifted in particular by the quality of their writing, among them Shirley Hazzard and David Mitchell.

It sometimes took Flaubert a week to write a paragraph that pleased him, and with good reason

Although the judges are paid a small fee, reading for the Booker is chiefly a labour of love—for books, their authors and the work each writer puts into his work. That is why the vote was so hard-fought. The final meeting, in a zebra-striped London hotel room, lasted nearly three hours. Mr Hollinghurst's coolly elegant skewering of Thatcherite London was pitted against Mr Toibin's quietly enthralling study of regret and the convoluted workings of human remembering, and both books faced the thrilling pyrotechnics of the young Mr Mitchell in “Cloud Atlas”. There was no clear winner, even after five rounds of voting. Ultimately, Mr Hollinghurst drew ahead only by the finest of whiskers when the chairman, Chris Smith, a master of political shepherding, proposed that the only vote for Mr Toibin be transferred to that judge's second choice.

It is the process that matters as much as the final result. If, by investing six months in judging the Man Booker prize, we have helped introduce to the wider public such promising young writers as Ms Dean, Sarah Hall, Mr Haythe and Mr Bennett, in addition to the better known names, then the task will have

achieved its purpose.

After reading more than 50,000 pages of fiction, I take away an introduction to two or three immense new talents I had not known before, and a clear memory of reading what was to become my favourite sentence: “The South African pulled his short shorts back up from around his ankles and positioned his genitals gamely inside the fishing-net interior”—all that, and on a chain around my neck, my first pair of reading glasses.

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About sponsorship

Obituary

Jacques Derrida

Oct 21st 2004
From The Economist print edition

Jacques Derrida, French intellectual, died on October 8th, aged 74

Anabell Guerrero Mendez / Opale

"IN HIM France gave the world one of the major figures of the intellectual life of our times," announced Jacques Chirac, the French president, on the day after Jacques Derrida's death. Mr Derrida himself disagreed with pretty much everything anyone said about him; but he may have let that encomium pass. The inventor of "deconstruction"—an ill-defined habit of dismantling texts by revealing their assumptions and contradictions—was indeed, and unfortunately, one of the most cited modern scholars in the humanities.

He was also the most controversial. In 1992 a proposal to award him an honorary doctorate at Cambridge University caused such howls that the university was forced to put the matter to a ballot—the first time this had happened in 30 years. Amid charges that Mr Derrida's work was absurd, vapid and pernicious, the degree was awarded in the end, by 336 votes to 204.

The academy is often fractious, but this was different. It is not that Mr Derrida's views, or his arguments for them, were unusually contentious. There were no arguments, nor really any views either. He would have been the first to admit this. He not only contradicted himself, over and over again, but vehemently resisted any attempt to clarify his ideas. "A critique of what I do", he said, "is indeed impossible."

There has always been a market for obscurantism. Socrates railed against the followers of Heraclitus of Ephesus for much the same reasons that Mr Derrida's critics berate his unfortunate disciples:

> If you ask one of them a question, they draw out enigmatic little expressions from their quiver, so to speak, and shoot one off; and if you try to get hold of an account of what that one meant, you're transfixed by another novel set of metaphors. You'll never get anywhere with any of them.

Subjected to his weak puns ("logical phallusies" was a famous example), bombastic rhetoric and illogical ramblings, an open-minded reader might suspect Mr Derrida of charlatanism. That would be going too far, however. He was a sincere and learned man, if a confused one, who offered some academics and students just what they were looking for.

Mr Derrida's father was a salesman of Sephardic Jewish extraction. Born in a suburb of Algiers, Jacques was expelled from his school at the age of 12 because of the Vichy government's racial laws. With some difficulty, in 1952 he succeeded in entering the elite Ecole Normale Supérieure in Paris and attended the lectures of Michel Foucault. He began to lecture at the Ecole Normale in 1964. Two years later, at a conference at Johns Hopkins University in Baltimore, he laid the foundations of his reputation in America with a bold new way to approach literary texts and lay bare their ideological presuppositions. Three books followed in 1967, including "Of Grammatology" and "Writing and Difference". A radical star was born.

Mr Derrida's style of deconstruction flowered especially in American departments of comparative literature, where it became interwoven with Marxism, feminism and anti-colonialism. Although by the early 1980s French academics had largely tired of trying to make sense of him, America's teachers of literature increasingly embraced Mr Derrida. Armed with an impenetrable new vocabulary, and without

having to master any rigorous thought, they could masquerade as social, political and philosophical critics. Mr Derrida always denied any responsibility for the undisciplined nihilism of his imitators, who gave the strong impression that deconstructionism had somehow succeeded in undermining, or even in refuting, the notion of objective truth. But his work could not easily be interpreted in any other way.

The fog of words

A crisis came in 1987. The *New York Times* revealed that Paul de Man, a friend of Mr Derrida's and one of America's leading deconstructionists, had written anti-Semitic articles for a pro-Nazi Belgian newspaper in 1940-42. Coincidentally, also in 1987, evidence began to emerge of the hidden Nazi past of the German philosopher Martin Heidegger, who had been a major influence on Mr Derrida. Mr Derrida's response was disastrous. He used deconstructionist techniques to defend the two men, laying down a fog of convoluted rhetoric in a doomed attempt to exonerate them. This fed straight into the hands of his critics, who had always argued that the playful evasiveness of deconstruction masked its moral and intellectual bankruptcy. The *New York Review of Books* quipped that deconstruction means never having to say you're sorry.

Mr Derrida also pursued far worthier causes. He fought for the rights of Algerian immigrants in France, opposed apartheid and campaigned for Czech dissidents. As his influence waned, his fame grew. Abandoning his earlier reticence, he submitted to interviews and photographs. He confessed to disliking Woody Allen's comedy, “Deconstructing Harry”. The books continued to flow (80 volumes in all) as his concerns moved away from literary and philosophical texts to ethical and political subjects, but they were no easier to follow. In his final years he became increasingly concerned with religion, and some theologians started to show interest in his work. God help them.

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Overview

Oct 21st 2004
From The Economist print edition

Consumer-price inflation in **America** eased to 2.5% in the year to September, from 2.7% in the year to August. But core inflation, which excludes the volatile prices of energy and food, rose by more than expected. Core CPI ran at 2.0%, the highest for 21 months, up from 1.7%.

According to figures from America's Treasury Department, net private foreign purchases of **securities** in America fell to $37 billion in August, well below their peak earlier this year.

Industrial output in America rose by a weaker than expected 0.1% in September. In the year to September, industrial output was up by 4.6%. America's **house-building** industry is slowing. Housing starts fell by 6% in September.

Industrial output in the **euro area** fell by 0.6% in August, and rose by 1.5% in the year to August. **Belgium's** factories, however, are busier than the euro-area average: industrial production rose by 4.0% in the year to August. In **Austria**, consumer prices rose by 2.1% in the year to September.

Canada's central bank put up interest rates by a quarter of a percentage point to 2.5%.

Unemployment in **Sweden** rose to 5.8% in September, up from 4.8% a year ago.

Producer prices in **Switzerland** rose by 1.5% in the year to September.

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Output, demand and jobs

Oct 21st 2004
From The Economist print edition

% change on year ago

	GDP latest	GDP qtr*	The Economist poll GDP forecasts 2004	The Economist poll GDP forecasts 2005	Industrial production latest	Retail sales (volume) latest	Unemployment % rate latest	Unemployment % rate year ago
Australia	+ 4.1 Q2	+ 2.5	+ 3.7	+ 3.3	+ 4.6 Q2	+ 7.9 Q2	5.6 Sep	5.9
Austria	+ 1.8 Q2	+ 3.5	+ 1.6	+ 2.1	+ 6.1 Jul	+ 3.5 Jul	4.5 Sep	4.5
Belgium	+ 2.7 Q2	+ 3.0	+ 2.4	+ 2.1	+ 4.0 Aug	+ 1.7 Jul	13.2 Sep†	13.2
Britain	+ 3.6 Q2	+ 3.6	+ 3.4	+ 2.7	− 0.1 Aug	+ 6.9 Sep	4.7 Aug††	5.0
Canada	+ 3.0 Q2	+ 4.3	+ 3.0	+ 3.4	+ 4.1 Jul	+ 3.1 Jun	7.1 Sep	7.9
Denmark	+ 2.6 Q2	+ 0.9	+ 2.2	+ 2.3	− 1.1 Aug	+ 4.5 Aug	6.3 Aug	6.1
France	+ 2.8 Q2	+ 2.8	+ 2.5	+ 2.3	+ 0.7 Aug	+ 1.0 Aug	9.9 Aug	9.8
Germany	+ 2.0 Q2	+ 1.9	+ 1.5	+ 1.7	+ 3.7 Aug	− 1.4 Aug	10.7 Sep§	10.5
Italy	+ 1.2 Q2	+ 1.1	+ 1.2	+ 1.6	− 3.5 Aug	− 2.3 Jul	8.1 Apr	8.7
Japan	+ 4.2 Q2	+ 1.3	+ 4.3	+ 2.2	+ 9.7 Aug	− 1.6 Aug	4.8 Aug	5.1
Netherlands	+ 1.3 Q2	− 0.4	+ 1.2	+ 1.6	− 0.1 Aug	− 0.7 Jun‡	6.1 Sep**	5.4
Spain	+ 2.6 Q2	+ 2.0	+ 2.6	+ 2.6	+ 5.5 Aug	− 1.6 Aug	11.0 Aug	11.2
Sweden	+ 3.6 Q2	+ 4.0	+ 3.3	+ 2.8	+ 3.9 Aug	+ 6.4 Aug	5.8 Sep†	4.8
Switzerland	+ 2.0 Q2	+ 1.6	+ 1.9	+ 2.0	+ 4.3 Q2	+ 3.1 Aug	3.7 Sep†	3.7
United States	+ 4.8 Q2	+ 3.3	+ 4.3	+ 3.4	+ 4.6 Sep	+ 4.1 Aug	5.4 Sep	6.1
Euro area	+ 2.0 Q2	+ 2.0	+ 1.9	+ 1.9	+ 1.5 Aug	− 0.4 Aug	9.0 Aug	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.7 Q2	+ 2.9	na	na	+ 7.2 Aug	+ 3.8 Aug	7.2 Sep†	8.0
Greece	+ 3.9 Q2	− 0.6	na	na	− 0.5 Aug	+ 6.6 Jul	na	na
Iceland	+ 6.2 Q2	na	na	na	na	na	3.0 Jul†	3.0
Ireland	+ 4.1 Q2	na	na	na	−12.6 Aug	+ 4.5 Aug	4.5 Sep	4.6
Luxembourg	+ 2.12003	na	na	na	− 1.2 Dec	− 1.1 May	4.1 Aug	3.6
New Zealand	+ 6.0 Q2	+ 4.6	na	na	+ 5.5 Q2	+ 6.8 Q2	4.0 Q2	4.7
Norway	+ 4.1 Q2	+ 5.0	na	na	− 6.5 Aug	+ 3.6 Aug	4.6 Q2	4.7
Portugal	+ 1.5 Q2	+ 4.7	na	na	− 3.9 Aug	+ 5.4 Aug	6.3 Q2†	6.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jun-Aug; claimant count rate 2.7% in Sep. §EU harmonised rate 9.9% in Aug. **Jul-Sep.

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Prices and wages

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From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.5	Q2	+ 2.7	+ 2.4	+ 2.7	+ 2.8	Q2	+ 0.2	+ 2.9	Q2	+ 5.5
Austria	+ 2.1	Sep	+ 1.4	+ 1.7	+ 1.6	+ 6.0	Sep	+ 1.3	+ 1.9	Aug	+ 2.3
Belgium	+ 2.0	Sep	+ 1.8	+ 1.9	+ 1.7	+ 5.8	Aug	– 1.4	+ 2.2	Jul	+ 1.9
Britain	+ 1.1	Sep*	+ 1.4	+ 1.4	+ 1.8	+ 3.1	Sep	+ 1.4	+ 3.9	Aug†	+ 3.4
Canada	+ 1.9	Aug	+ 2.0	+ 2.0	+ 2.2	+ 4.9	Aug	– 1.9	+ 1.5	Jul	+ 5.1
Denmark	+ 1.1	Sep	+ 1.9	+ 1.2	+ 1.8	+ 3.4	Sep	– 0.5	+ 3.1	Q2	+ 3.8
France	+ 2.2	Sep	+ 2.1	+ 2.2	+ 1.6	+ 2.8	Aug	+ 0.5	+ 2.8	Q2	+ 2.7
Germany	+ 1.8	Sep	+ 1.1	+ 1.7	+ 1.3	+ 3.4	Sep	+ 0.5	+ 0.5	Jul	+ 1.4
Italy	+ 2.1	Sep	+ 2.8	+ 2.3	+ 2.1	+ 3.5	Aug	+ 1.4	+ 2.6	Aug	+ 2.6
Japan	– 0.2	Aug	– 0.3	– 0.1	+ 0.1	+ 1.8	Sep	– 0.6	+ 1.3	Aug	+ 0.7
Netherlands	+ 1.0	Sep	+ 2.0	+ 1.4	+ 1.2	+ 5.3	Aug	+ 0.6	+ 1.1	Sep	+ 2.6
Spain	+ 3.2	Sep	+ 2.9	+ 2.9	+ 2.7	+ 4.4	Aug	+ 1.1	+ 3.1	Q2	+ 4.2
Sweden	+ 0.6	Sep	+ 1.7	+ 0.8	+ 1.5	+ 2.0	Aug	– 1.7	+ 2.4	Jul	+ 3.6
Switzerland	+ 0.9	Sep	+ 0.5	+ 0.8	+ 1.1	+ 1.5	Sep	– 0.4	+ 1.4	2003	+ 1.8
United States	+ 2.5	Sep	+ 2.3	+ 2.6	+ 2.2	+ 3.3	Sep	+ 3.5	+ 2.4	Sep	+ 2.4
Euro area	+ 2.1	Sep	+ 2.2	+ 2.1	+ 1.7	+ 3.1	Aug	+ 1.4	+ 2.2	Q2	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.4	Sep	+ 0.7	na	na	+ 2.5	Sep	– 0.7	+ 3.5	Q2	+ 4.4
Greece	+ 2.8	Sep	+ 3.3	na	na	+ 2.1	Aug	+ 2.2	na		na
Iceland	+ 3.7	Oct	+ 2.2	na	na	+ 5.2	Sep	+ 3.6	+ 5.2	Aug	+ 5.7
Ireland	+ 2.5	Sep	+ 2.9	na	na	– 0.4	Aug	– 7.8	+ 3.8	Q2	+ 8.0
Luxembourg	+ 2.0	Sep	+ 2.1	na	na	+ 9.6	Jul	+ 0.7	– 0.4	Dec	+ 0.7
New Zealand	+ 2.5	Q3	+ 1.5	na	na	+ 1.5	Q2	– 1.9	+ 2.3	Q2	+ 2.3
Norway	+ 1.1	Sep	+ 2.1	na	na	+20.3	Sep	– 0.5	+ 4.5	Q2	+ 5.4
Portugal	+ 2.1	Sep	+ 3.1	na	na	+ 4.1	Aug	+ 0.1	– 0.2	Aug	– 1.4

*New series. RPI inflation rate 3.1% in Sep. †Jun-Aug.

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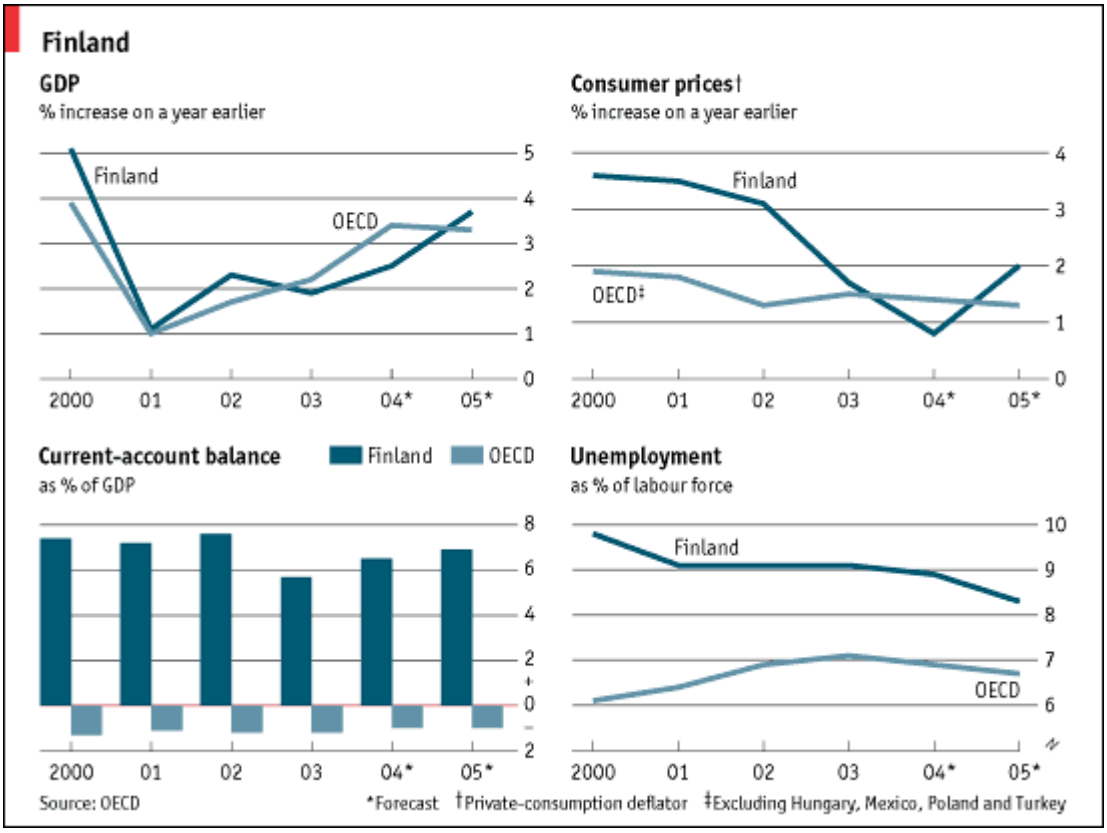
Finland

Oct 21st 2004
From The Economist print edition



Finland's economy has boomed during the past decade, thanks in large part to its embrace of high-technology and telecoms industries. Recently, the country has rebounded far better than other euro-area economies from the global economic downturn in 2001. Despite rapid growth, however, income per person remains only near the median of rich countries. The OECD reckons that there are several threats to future prosperity. While Finland has relied mostly on its export-oriented technology industries, it needs to reduce its sheltering, partly through publicly-owned firms, of other parts of the economy. In addition, Finland's population is ageing rapidly, requiring reform of the labour market. To achieve its goal of a 75% employment rate, early retirement should be curtailed and young people encouraged to enter the labour force earlier.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % a year (Oct 20th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.6	+10.0	Aug	5.40	4.99	4.98	5.34	5.66	6.09
Britain	+ 5.8	+ 9.3	Sep	4.84	3.81	4.49	4.75	4.92	5.33
Canada	+10.5	+ 9.1	Aug	2.56	2.67	3.10	4.51	4.80	6.05
Denmark	+ 9.5	+11.1	Aug	2.25	2.30	2.55	3.95	4.39	5.32
Japan	+ 4.1	+ 2.1	Sep	0.03	0.02	0.13	1.49	1.42	1.55
Sweden	+ 1.1	+ 1.5	Aug	2.01	2.72	2.65	4.19	4.79	2.68
Switzerland	– 2.0	+ 0.6	Aug	0.69	0.25	0.89	2.45	2.62	2.34
United States	+ 5.0	+ 4.8	Sep	1.91	1.11	2.51	4.04	4.27	5.60
Euro area†	+ 9.3	+ 5.5	Aug	2.14	2.15	2.39	3.87	4.22	3.69

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.77%, Japan No. 264 1.45%. Central bank rates: US fed funds 1.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Oct 21st 2004
From The Economist print edition

1995=100

	Oct 12th	Oct 19th*	% change on one month	% change on one year
Dollar index				
All items	87.8	86.2	– 2.0	+ 1.8
Food	78.9	79.7	– 1.2	– 4.9
Industrials				
All	99.9	94.9	– 2.8	+10.8
Nfa†	81.8	80.4	– 6.4	– 9.5
Metals	115.1	107.1	– 0.4	+29.1
Sterling index				
All items	77.5	75.3	– 2.6	– 5.4
Euro index				
All items	93.8	90.5	– 4.0	– 4.9
Yen index				
All items	102.6	99.5	– 2.5	+ 0.8
Gold				
$ per oz	414.00	419.73	+ 2.7	+11.0
West Texas Intermediate				
$ per barrel	52.46	53.14	+13.2	+77.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Oct 21st 2004
From The Economist print edition

Market indices

	Oct 20th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,710.9	3,734.0	3,274.9	– 0.6	– 0.6	+12.2	+ 9.7
Austria (ATX)	2,087.7	2,119.0	1,568.9	– 0.1	– 1.5	+35.1	+35.0
Belgium (Bel 20)	2,755.8	2,775.2	2,244.2	+ 0.1	–25.2	+22.8	+22.7
Britain (FTSE 100)	4,616.4	4,707.1	4,287.0	– 0.4	–33.4	+ 3.1	+ 4.4
Canada (Toronto Composite)	8,788.1	8,898.8	8,123.5	+ 0.7	–22.8	+ 6.9	+11.1
Denmark (KBX)	246.8	253.0	219.0	– 1.4	–18.2	+15.6	+15.6
France (SBF 250)	2,512.2	2,594.4	2,386.1	– 0.7	–42.8	+ 4.2	+ 4.1
(CAC 40)	3,665.7	3,811.4	3,465.3	– 0.8	–47.0	+ 3.0	+ 3.0
Germany (DAX)	3,912.4	4,151.8	3,647.0	– 1.6	–51.5	– 1.3	– 1.4
Italy (BCI)	1,341.1	1,356.4	1,239.5	– 0.6	–38.5	+ 6.7	+ 6.6
Japan (Nikkei 225)	10,882.2	12,163.9	10,365.4	– 2.8	–72.0	+ 1.9	+ 0.9
(Topix)	1,093.9	1,217.9	1,022.6	– 2.6	–62.1	+ 4.8	+ 3.8
Netherlands (AEX)	325.5	364.8	310.7	– 1.8	–53.6	– 3.6	– 3.7
Spain (Madrid SE)	875.5	881.7	804.4	– 0.2	–23.6	+ 8.4	+ 8.3
Sweden (Affarsvarlden Gen)	209.6	218.1	188.5	– 1.3	–47.6	+11.3	+11.3
Switzerland (Swiss Market)	5,376.3	5,934.4	5,309.8	– 1.6	–36.1	– 2.0	– 0.7
United States (DJIA)	9,886.9	10,737.7	9,814.6	– 1.2	–15.7	– 5.4	– 5.4
(S&P 500)	1,103.7	1,157.8	1,063.2	– 0.9	–27.7	– 0.7	– 0.7
(NASDAQ Comp)	1,933.0	2,153.8	1,752.5	+ 0.6	–61.7	– 3.5	– 3.5
Europe (FTSE Eurotop 300)*	992.5	1,026.2	940.9	– 1.1	–41.8	+ 3.6	+ 3.5
Euro area (FTSE Ebloc 100)*	843.6	888.3	787.2	– 0.9	–45.6	+ 1.4	+ 1.4
World (MSCI)†	1,051.1	1,085.8	997.0	– 0.1	–27.5	+ 1.4	+ 1.4
World bond market (Citigroup)‡	625.7	621.6	575.1	+ 2.1	nil	+ 3.7	+ 3.7

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Oct 21st 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2004	Current-account balance The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Oct 20th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Oct 20th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 17.0 Aug	− 34.2 Q2	− 5.8	− 5.0	85.6	84.9	1.36	1.42	2.46	1.71	1.25	+ 0.5
Austria	− 0.6 Jul	− 1.2 Aug	− 0.3	− 0.4	103.0§	102.8	0.79	0.85	1.44	–	0.73	− 1.3
Belgium	+ 20.6 Aug	+ 13.0 Jun	+ 3.2	+ 3.2	103.1§	102.8	0.79	0.85	1.44	–	0.73	− 0.2
Britain	−100.8 Aug	− 41.7 Q2	− 2.4	− 2.6	101.9	99.9	0.55	0.59	–	0.70	0.51	− 2.9
Canada	+ 51.6 Aug	+ 23.8 Q2	+ 2.8	+ 2.4	92.5	88.9	1.24	1.30	2.25	1.57	1.15	+ 1.2
Denmark	+ 10.1 Aug	+ 6.8 Aug	+ 2.9	+ 2.6	106.9	106.2	5.90	6.30	10.7	7.44	5.45	+ 0.9
France	− 0.9 Aug††	− 2.0 Aug	+ 0.3	+ 0.3	106.5§	106.1	0.79	0.85	1.44	–	0.73	− 3.8
Germany	+188.1 Aug	+ 92.5 Aug	+ 3.1	+ 2.9	104.3§	103.7	0.79	0.85	1.44	–	0.73	− 3.7
Italy	+ 3.2 Aug	− 12.2 Aug	− 0.9	− 1.1	76.0§	75.6	0.79	0.85	1.44	–	0.73	− 3.1
Japan	+132.7 Aug	+167.0 Aug	+ 3.5	+ 3.5	134.1	137.4	108	109	196	136	–	− 7.1
Netherlands	+ 34.2 Aug	+ 20.7 Q2	+ 2.9	+ 3.0	102.5§	102.2	0.79	0.85	1.44	–	0.73	− 3.1
Spain	− 64.0 Jul	− 35.8 Jul	− 3.1	− 3.1	77.1§	76.9	0.79	0.85	1.44	–	0.73	+ 0.3
Sweden	+ 22.9 Aug	+ 23.4 Q2	+ 6.6	+ 6.1	82.5	82.1	7.19	7.65	13.0	9.06	6.64	+ 0.2
Switzerland	+ 7.9 Sep	+ 45.0 Q2	+11.3	+10.8	113.5	111.3	1.22	1.32	2.21	1.54	1.13	− 1.6
United States	−611.6 Aug	−571.9 Q2	− 5.5	− 5.3	93.8	98.1	–	–	1.81	1.26	0.92	− 4.7
Euro area	+111.8 Jul	+ 61.5 Jul	+ 0.6	+ 0.6	92.3	90.0	0.79	0.85	1.44	–	0.73	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 14.6 Aug	+ 8.5 Aug	na	na	82.1§	81.8	0.79	0.85	1.43	–	0.73	+ 1.6
Greece	− 29.6 Aug	− 10.9 Aug	na	na	59.6§	59.4	0.79	0.85	1.43	–	0.73	− 3.2
Iceland	− 0.5 Aug	− 0.6 Q2	na	na	95.7**	97.2	69.4	75.9	126	87.5	64.1	+ 0.2
Ireland	+ 42.4 Jul	− 1.7 Q2	na	na	94.2§	94.3	0.79	0.85	1.43	–	0.73	− 0.5
Luxembourg	− 4.3 Jul	+ 2.1 Q2	na	na	103.1§	102.8	0.79	0.85	1.43	–	0.73	− 1.8
New Zealand	− 2.4 Aug	− 3.9 Q2	na	na	108.7	98.1	1.44	1.65	2.61	1.81	1.33	+ 2.9
Norway	+ 31.4 Sep	+ 31.2 Jul	na	na	98.3	97.2	6.53	6.99	11.8	8.23	6.03	+ 10.4
Portugal	− 16.6 Jul	− 10.0 Jul	na	na	93.4**	93.8	0.79	0.85	1.43	–	0.73	− 3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, August average. ‡OECD forecast. ††New series. **IMF, June average.

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Total tax revenue

Oct 21st 2004
From The Economist print edition

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Overview

Oct 21st 2004
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Peru's GDP jumped 6.0% in the year to August compared with 3.8% in the year to July.

Industrial output in **Russia** rose by 3.5% in the year to September, its slowest growth since December 2002.

Egypt's stockmarket hit an all-time high on October 20th on expectations of strong banking results and general optimism about the prospects for economic reform.

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The uncorrupt

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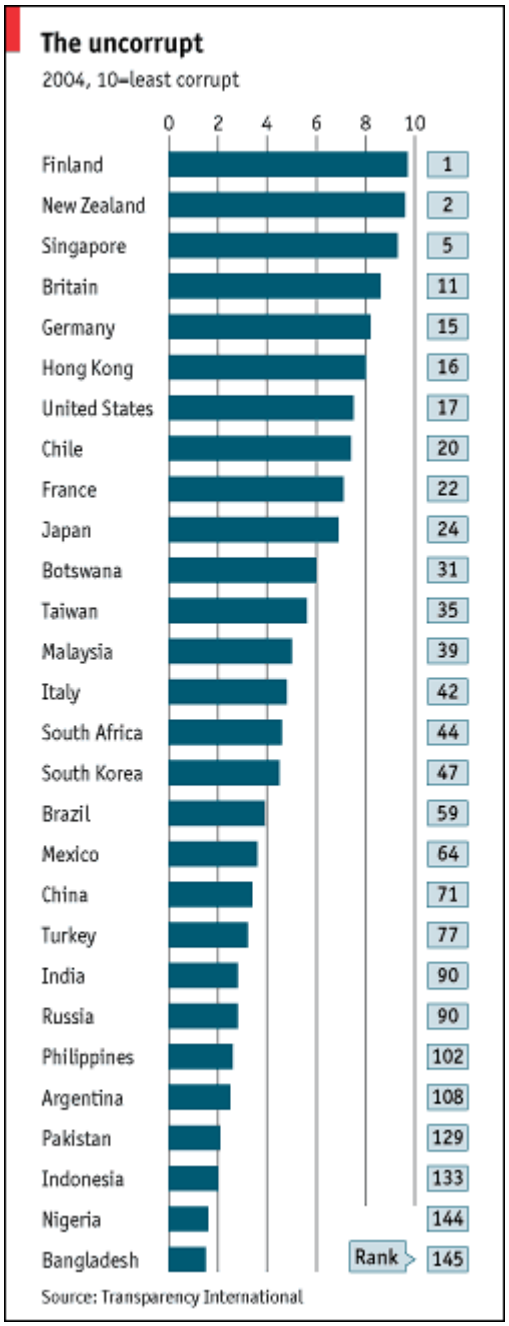
Sixty of the world's countries are plagued by rampant corruption, defined as a score of less than three on the annual index compiled by Transparency International, a non-governmental organisation. The index focuses on the misuse of public office for private gain. Countries are scored from zero to ten, with ten indicating the least corruption. Once again this year, Finland remains the least corrupt country in the world.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.6	Q2	+15.9	Aug	+ 5.3	Aug	+20.9	Sep	+45.9	2003	487.4	Jul
Hong Kong	+12.1	Q2	+ 1.1	Q2	+ 0.8	Aug	−13.6	Aug	+13.6	Q2	118.4	Sep
India	+ 7.4	Q2	+ 7.9	Aug	+ 4.6	Aug	−20.0	Sep	+11.0	Q2	113.3	Sep
Indonesia	+ 4.3	Q2	− 9.6	Jul	+ 6.3	Sep	+24.3	Aug	+ 3.9	Q2	33.6	Aug
Malaysia	+ 8.0	Q2	+10.6	Aug	+ 1.6	Sep	+20.2	Aug	+13.6	Q2	56.9	Sep
Philippines	+ 6.2	Q2	− 0.4	Jul	+ 6.9	Sep	− 1.4	Aug	+ 4.5	Jun	12.5	Sep
Singapore	+ 7.7	Q3	+ 5.3	Aug	+ 1.6	Aug	+16.3	Sep	+28.4	Q2	102.8	Sep
South Korea	+ 5.5	Q2	+10.6	Aug	+ 3.9	Sep	+29.2	Sep	+27.3	Aug	174.4	Sep
Taiwan	+ 7.7	Q2	+ 8.8	Aug	+ 2.8	Sep	+10.8	Sep	+25.8	Q2	233.0	Sep
Thailand	+ 6.3	Q2	+ 6.1	Aug	+ 3.6	Sep	+ 1.3	Aug	+ 6.7	Aug	42.8	Aug
Argentina	+ 7.0	Q2	+ 8.4	Aug	+ 5.8	Sep	+12.6	Aug	+ 4.6	Q2	18.2	Sep
Brazil	+ 5.7	Q2	+13.1	Aug	+ 6.7	Sep	+32.2	Sep	+ 9.7	Aug	49.6	Aug
Chile	+ 5.1	Q2	+ 9.0	Aug	+ 2.2	Sep	+ 7.5	Sep	+ 1.2	Q2	15.8	Sep
Colombia	+ 4.3	Q2	+ 4.9	Jul	+ 6.0	Sep	+ 0.2	Jul	− 1.6	Q2	12.0	Sep
Mexico	+ 3.9	Q2	+ 5.2	Aug	+ 5.1	Sep	− 5.9	Aug	− 6.7	Q2	61.0	Aug
Peru	+ 6.0	Aug	+ 5.2	Aug	+ 4.0	Sep	+ 1.9	Aug	− 0.7	Q2	11.2	Sep
Venezuela	+13.6	Q2	+27.6	Jul	+20.8	Sep	+20.3	Q2	+14.0	Q2	18.7	Jul
Egypt	+ 4.3	2004†	+ 2.6	2003†	+16.5	May‡	− 7.5	Q2	+ 3.7	Q2	13.6	Jun
Israel	+ 3.0	Q2	+ 1.9	Jul	+ 0.8	Sep	− 5.7	Sep	+ 0.1	Q2	26.1	Sep
South Africa	+ 2.5	Q2	+ 6.8	Aug	+ 1.0	Aug	− 0.9	Aug	− 3.5	Q2	10.7	Sep
Turkey	+13.4	Q2	+ 8.8	Aug	+ 9.0	Sep	−31.2	Aug	−12.4	Aug	33.9	Aug
Czech Republic	+ 4.1	Q2	+ 8.7	Aug	+ 3.0	Sep	− 1.9	Aug	− 6.2	Q2	26.8	Sep
Hungary	+ 4.0	Q2	+ 3.6	Aug	+ 6.6	Sep	− 3.0	Q2	− 8.4	Q2	12.8	Sep
Poland	+ 6.1	Q2	+ 9.3	Sep	+ 4.4	Sep	− 5.3	Jul	− 4.0	Jul	35.3	Sep
Russia	+ 7.4	Q2	+ 3.5	Sep	+11.5	Sep	+71.8	Aug	+38.4	Q2	94.3	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.9	Q2	+ 6.0	Aug	+ 3.9	Sep	− 2.4	Jul	− 1.5	Q2	1.4	Sep
Latvia	+ 7.7	Q2	+ 6.4	Aug	+ 7.7	Sep	− 2.4	Aug	− 1.4	Aug	1.6	Aug
Lithuania	+ 6.9	Q2	na		+ 3.2	Sep	− 3.2	Aug	− 1.8	Q2	3.4	Aug
Slovakia	+ 5.4	Q2	+ 5.4	Aug	+ 6.6	Sep	− 1.1	Aug	− 0.7	Jul	13.2	Sep
Slovenia	+ 4.6	Q2	+11.5	Aug	+ 3.3	Sep	− 0.9	Aug	− 0.2	Aug	7.7	Jul
Pakistan	+ 6.4	2004†	+24.8	May	+ 9.0	Sep	− 3.9	Sep	+ 1.8	Q2	10.6	Aug
Saudi Arabia	+ 7.2	2003	na		+ 0.2	Jul	+61.2	2003	+29.7	2003	22.2	Aug

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series, % change Jan-May annualised.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Oct 21st 2004
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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 20th		Dec 31st 2003	
	Oct 20th	year ago	Oct 20th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.0	3.20	1,395.8	– 4.1	– 11.0	– 11.0
Hong Kong	7.79	7.75	14.1	0.95	12,999.1	– 1.3	+ 3.4	+ 3.1
India	45.7	45.3	82.9	5.02	5,673.0	– 0.1	– 2.8	– 3.1
Indonesia	9,080	8,465	16,464	7.51	840.8	– 2.6	+ 21.5	+ 12.7
Malaysia	3.80	3.80	6.89	2.87	848.7	– 0.5	+ 6.9	+ 6.9
Philippines	56.3	55.2	102.1	7.69	1,784.9	– 0.3	+ 23.7	+ 22.0
Singapore	1.67	1.74	3.03	1.38	1,953.0	– 0.9	+ 10.7	+ 12.4
South Korea	1,143	1,180	2,072	3.53	828.6	– 3.2	+ 2.2	+ 6.6
Taiwan	33.8	33.9	61.3	1.25	5,788.3	– 2.9	– 1.7	– 1.3
Thailand	41.3	39.9	74.9	1.85	652.5	– 1.3	– 15.5	– 18.9
Argentina	2.97	2.85	5.38	5.63	1,215.2	+ 4.3	+ 13.4	+ 12.1
Brazil	2.89	2.86	5.24	16.24	22,873.5	– 1.8	+ 2.9	+ 2.6
Chile	618	640	1,121	2.04	8,689.8	+ 2.2	+ 18.4	+ 13.6
Colombia	2,559	2,871	4,641	7.61	3,697.5	– 0.2	+ 58.4	+ 72.1
Mexico	11.5	11.2	20.8	7.76	11,076.9	+ 1.2	+ 25.9	+ 23.6
Peru	3.32	3.48	6.02	2.96	3,558.4	+ 4.1	+ 46.1	+ 52.6
Venezuela	2,530§	1,598	4,587	11.85	30,445.0	– 0.1	+ 37.1	+ 54.6
Egypt	6.25	6.15	11.33	10.92	20,739.2	+ 2.9	+ 78.2	+ 75.9
Israel	4.44	4.48	8.05	1.00	547.8	– 0.8	+ 2.5	+ 1.5
South Africa	6.31	6.99	11.4	7.55	11,604.1	– 1.6	+ 11.7	+ 18.1
Turkey	1,487,500	1,463,500	2,697,135	23.05	22,220.8	– 1.8	+ 19.3	+ 12.7
Czech Republic	25.0	27.0	45.3	2.63	904.3	+ 0.4	+ 37.2	+ 40.9
Hungary	196	217	355	10.54	13,010.2	+ 1.1	+ 38.7	+ 46.9
Poland	3.41	3.93	6.19	6.87	24,927.3	– 0.1	+ 19.7	+ 31.3
Russia	29.1	29.9	52.8	13.00	641.2‡	– 3.4	+ 12.5	+ 13.0
EMF (MSCI)*	1.00	1.00	1.81	na	463.4	– 0.9	+ 4.7	+ 4.7
EMBI+†	1.00	1.00	1.81	na	316.6	– 0.5	+ 7.4	+ 7.4

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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